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National Association of Purchasing Management

Report On Business

November 4, 1985
Volume 3, Number 11

Economy Maintains Strength

Price Decreases Slowing

New Orders Down

Analysis by the Business Survey Committee, chairman, Robert J. Bretz, C.P.M., director of corporate purchasing, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

October Report

The economy entered the fourth quarter maintaining September's dramatic levels, say the nation's purchasing managers in their latest **Report on Business**. The rate of improvement in production was essentially unchanged in October, holding to the same level of increases reported during two previous months. New orders were not as strong as those reported in September, and fall back to the pace of the three previous months. Inventories declined slightly in October, as manufacturers began making seasonal adjustments. Employment was somewhat improved from the previous two months, but remained at a low level. Vendor deliveries showed little change and, for the ninth consecutive month, no items were reported in short supply. For the eleventh consecutive month, more managers reported paying lower, rather than higher, prices.

The favorable turnaround in the economy noted in September was sustained in October. Perhaps the most impressive sign is that the momentum continued, in spite of the expected seasonal slowdown," said Robert J. Bretz, C.P.M., chairman of the Business Survey Committee.

The **Purchasing Managers' Composite Index** rose to 51.7% in October from 51% in September. This is the second consecutive month this key indicator was over 50%, after registering a seven-month period of being under 50%. A reading below 50% generally indicates that the economy is in a declining phase; above 50%, that the economy is expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The rate of decline in employment slowed in October. The number of members reporting lower employment decreased to 25% from the 29% indicated in September. Considering seasonal adjustments, this is the best report since November 1984.

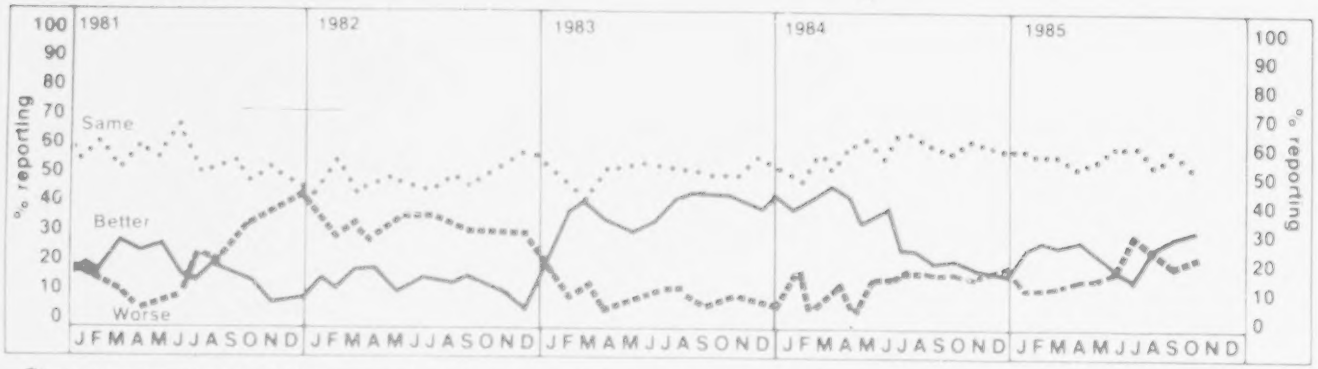
Employment %	Higher	Same	Lower	Net Differ.
October	11	64	25	−14
September	11	60	29	−18
August	9	64	27	−18

Buying Policy

A rather significant decrease in lead times for capital expenditures was reported in October. Members reporting lead times in the important six-months-and-longer category decreased to 48% from 52% in September. However, lead times for production materials lengthened, as only 17% reported buying hand-to-mouth, compared to 25% in September. Lead times for MRO supplies also lengthened in October, as only 41% indicated buying hand-to-mouth, compared to 51% in September.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
October	17	45	24	8	6
September	25	34	27	10	4
August	16	42	26	11	5
MRO Supplies %					
October	41	49	5	3	2
September	51	41	4	2	2
August	46	40	8	5	1
Capital Expenditures %					
October	20	5	5	22	48
September	14	4	9	21	52
August	15	5	7	20	53

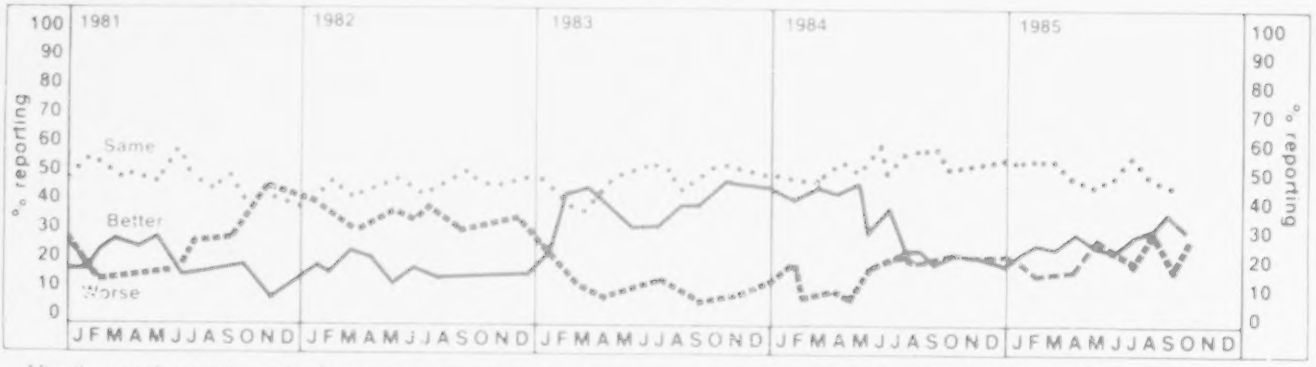
Production



There was no change in the pace of production in October. However, if you apply normal seasonal adjustments to the data above, October's rate is the highest since January 1985.

Production %	Better	Same	Worse	Net
October	26	54	20	+ 6
September	23	60	17	+ 6
August	21	56	23	− 2

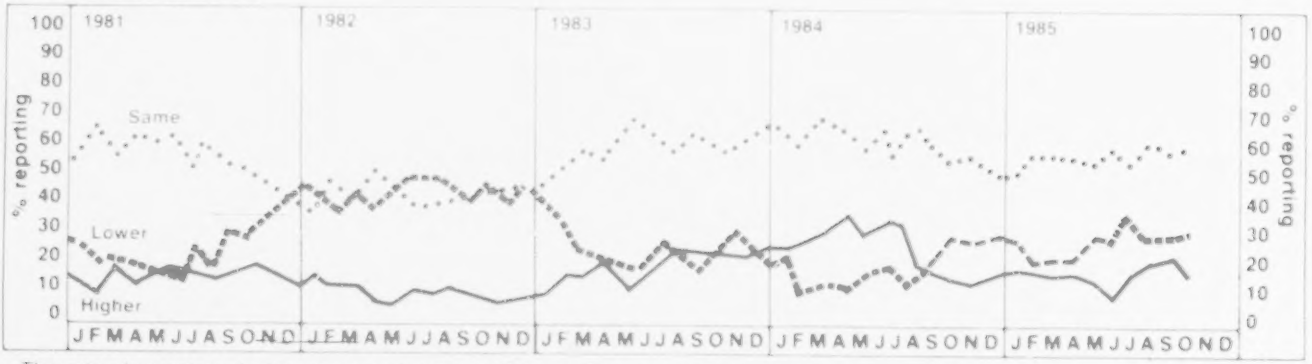
New Orders



After the significant rebound in September, new orders fell. The equal number of members reporting new orders as better and worse in October duplicated the same flat situation reported in June, July and August. This leading indicator, which now is essentially neutral, should be watched carefully for changing signs in the months ahead.

New Orders %	Better	Same	Worse	Net
October	27	46	27	0
September	34	46	20	+14
August	26	48	26	0

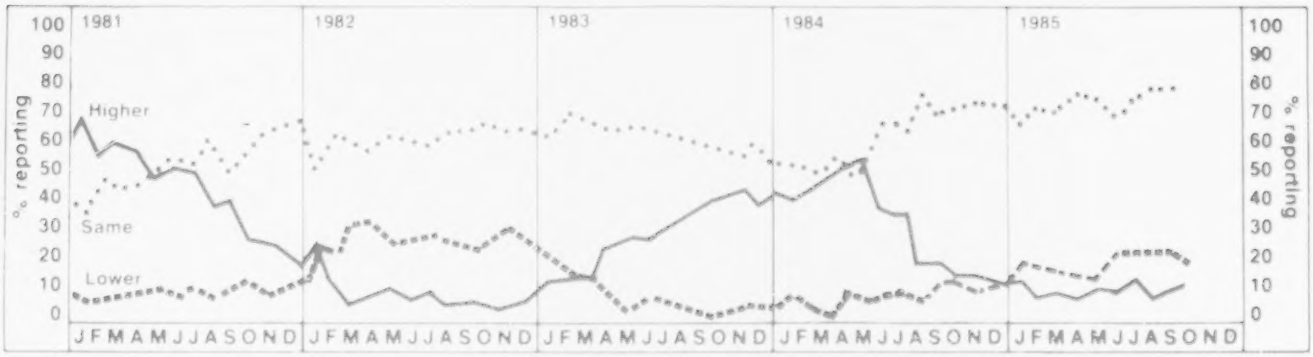
Inventories



The rate of inventory decline increased again in October. This is a change from the three previous months, in which a slight decrease in the rate of decline was reported. If this rate continues, as is normal for the end of the year, it will have a negative effect on the near-term economy.

Inventories %	Higher	Same	Lower	Net
October	14	59	27	−13
September	17	57	26	− 9
August	14	60	26	−12

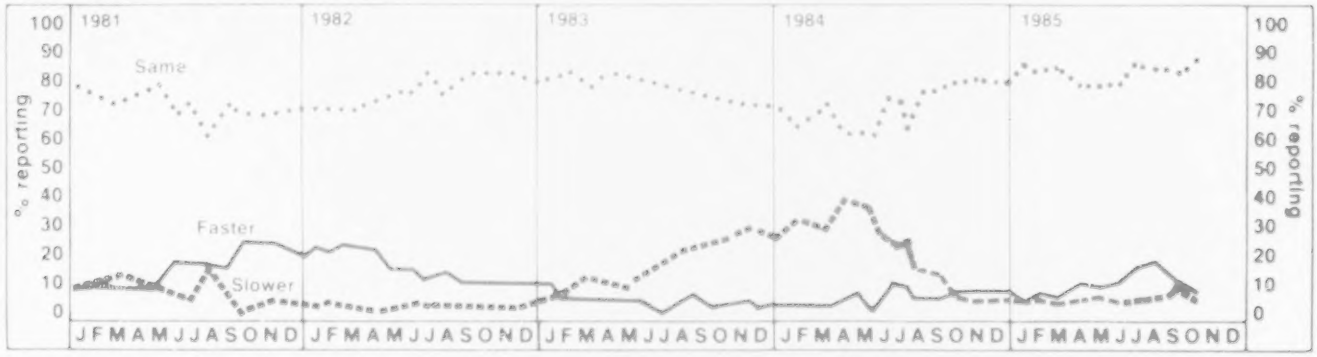
Prices



For the eleventh consecutive month, more purchasing managers reported paying lower, rather than higher, prices. For the second consecutive month, the rate of change for price decreases appears to be slowing. Some members noted that the effects of the weakening U.S. dollar is beginning to influence import prices.

Prices %	Higher	Same	Lower	Net
October	8	76	16	− 8
September	7	74	19	−12
August	5	75	20	−15

Vendor Deliveries



The slowing in vendor deliveries, as reported by purchasers in September, continued at about the same pace in October. The 6% reporting slower deliveries in October was a drop of three points from the 9% reported in September. However, the 7% indicating faster deliveries in October was an increase of two points over September's 9% level.

Vendor Deliveries %	Faster	Same	Slower	Net
October	7	87	6	+ 1
September	9	82	9	0
August	13	83	4	+ 9

Specific Commodity Changes

No items were reported in short supply in October, a situation which has existed for nine consecutive months. Only one item was reported up in price: diesel fuel. However, fuel oil prices were reported lower for the twelfth consecutive month. For the ninth consecutive month, corrugated shipping containers were reported lower in price. For the third consecutive month, caustic soda was also reported to be lower in price. Caustic soda is used in making the paper from which those corrugated containers are made. Phenol, which was reported up in price in July and August, reversed directions in October and dropped in price. Other repeaters on the list of lower-priced items are aluminum (its fifth consecutive month), soybean and vegetable oils (their third consecutive month), and steel. Prices for several petroleum-derived chemical solvents were reported lower for the first time in October.

UP in Price: Diesel fuel.

DOWN in Price: Aluminum, steel, soybean and vegetable oils (used in prepared foods), fuel oil, coal, corrugated shipping containers, caustic soda (used heavily in petroleum refining and paper making), methanol (a workhorse chemical), phenol (used in plastic resins for housing and automobile production), and several petroleum-derived chemicals.

In SHORT Supply: None.

Note: The next issue of the *Report on Business* will be available Dec. 2, 1985.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

As we head into the fall of 1985, the basic condition of the paper industry can only be described as struggling. The industry in general is plagued by overcapacity, imports of the high tonnage commodity items, and (in some grades) a decline in demand. Due to price reductions in many grades, most buyers are keeping inventories at minimum levels. In most cases, minimum inventories are not creating any delivery problems since lead times, in general, are very short.

Newsprint

This commodity remains plentiful, with excess supply anticipated at least through mid-1986. Lead times are short, and consumers' inventories are decreasing. Prices are decreasing, too, with discounts prevalent; no price increases are expected for at least six months. No additional U.S. capacity exists. However, this commodity has always been a major import item, and some additional foreign capacity is projected.

Uncoated Groundwood

Most grades are plentiful, with the temporary exception of Roto news, which is currently firm. Shipments of uncoated groundwood declined during the first half of 1985. Rush orders can be accommodated. Consumers' inventories are decreasing. Some discounting is occurring, with imports adding pricing and capacity pressure. No new U.S. capacity is planned.

Coated Papers

This market is soft, except for a few specific grades of coated freesheet. Two new machines will enter the No. 5 coated groundwood market in 1986 and '87. Imports again are nibbling at this market, doubling last year's levels. Overall supplies increased during the first half of 1985; the strongest demand is for No. 3 coated and No. 5 coated groundwood. Pricing remains stable but under pressure from imports.

Uncoated Freesheets

Excess capacity causes mill inventories to be available for rush deliveries on some grades. Three major capacity additions were made in the past twelve months. Imports have declined from the high levels of last year, but still are having an adverse affect on U.S. mills. Prices are decreasing, and reprographics grade tonnage is growing. Tablet grade showed strong growth for the first half of 1985, reflecting the U.S. mills' regaining of their market share which was lost to imports last year.

Paperboard

This commodity also remains readily available, with excess capacity, and is projected to remain plentiful for the near term. Buyers' inventories are low and decreasing. Some SBS capacity is projected for 1986. Prices remain stable at somewhat lower levels. The attempts by linerboard grades to get price increases has met with little success to date.

Pulp

An over supply still exists worldwide for most all grades of market pulp, and discounting is prevalent. This over-supply of pulp is having an adverse affect on the selling price of most all waste paper grades.

Notice from the chairman:

We are looking for new members for the paper committee. If your primary job responsibility is the purchasing of paper or paperboard material as a raw material, we would be interested in having you as a member. Please contact Glenn Farber, Vanier Graphics Corporation, P.O. Box 370, Santee, CA 92071.

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dekse, C.P.M., S.C. Johnson and Son, Inc., Racine, WI.

Ample availability continues in the packaging and container markets. Prices are generally weak, particularly for corrugated and folding cartons.

Metal Cans

There is still surplus capacity in the metal can industry. Some business is being lost to competing materials. Prices continue to be weak.

Fibre Cans

There is surplus capacity in this market and lead times are short. The switch to plastic for oil cans is hurting this industry. Prices are stable and some decreases are reported.

Glass

Continued plant shutdowns have resulted in some tightness of supply. As a result, prices are firming.

Molded Plastics

Plastic molders are quite busy; no shortages are noted, however. Resin prices are starting to go up from their depressed levels.

Films

There is adequate to surplus supply of this commodity, and lead times are relatively short. Prices are stable, but concern is expressed over possible resin increases.

Laminated Stock

Market conditions for laminated stock are similar to those for film. There is plenty of capacity, but some concern remains about possible price increases, due to some firming in the resin market.

Metal Drums

The availability of metal drums is adequate to surplus. As a result, pricing continues to be weak.

Fibre Drums

This is another market with very adequate capacity. Prices are stable, but are not as depressed as those of other paper-based containers, such as corrugated.

Folding Cartons

The folding carton industry continues to experience surplus capacity. SBS board is readily available. Pricing is stable to weak, and some decreases are being experienced.

Corrugated

Excess capacity continues at the linerboard mills and at converting plants, and lead times are short. Prices continue to be very depressed, as suppliers compete for available business.

Bags

Mergers and buy-outs continue, but surplus capacity continues to exist. Prices are weak, reflecting this surplus, and the weak price market for kraft paper continues.

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National Association of Purchasing Management

Report On Business

December 2, 1985
Volume 3, Number 12

New Orders Increase

Lead Times Shrink

Prices Still Lower

November Report

The economy improved again in November, continuing the trend of the past two months, say the nation's purchasing managers in their latest **Report on Business**. Production advanced slightly in November. New orders, after being flat in October, increased significantly, suggesting continued strength in production in December. However, the decline in employment continued. Inventories also were lower, as purchasers cancelled no shortages and a slight improvement in the speed of vendor deliveries. November marks the twelfth consecutive month in which more purchasing managers reported paying lower rather than higher prices, which should bring comfort to those who worried about inflation.

The continued improvement of the economy in November is encouraging. The impressive growth in new orders indicates a good fourth quarter," said Robert J. Bretz, C.P.M., chairman of the Business Survey Committee.

The **Purchasing Managers' Composite Index** advanced to 53.3% in November from 51.7% in October. This marks the third consecutive month in which the key indicator of the health of the economy registered over 50%, recovering from seven previous months under 50%. This is the highest reading since May 1984 (52.2%). A reading above 43% generally indicates that the economy is in an expanding phase, below 43% that the economy is declining.

Employment

Employment continues to decline, even though production and new orders have improved. The 7% of members reporting higher employment in November is the lowest since January 1985 (also 7%), and industry is still being hurt by increased employment despite the economic improvement.

Employment %	Higher	Same	Lower	Net Differ
November	7	68	25	-18
October	11	64	25	-14
September	11	60	29	-18

Buying Policy

Members reporting lead time in the important six months and longer category for capital expenditures remained at 48% in November. This is the lowest level since August 1982 (47%). The 65% of members reporting lead times of 30 days or less for production materials is the most since these statistics were first surveyed (May, 1955). Lead time for MRO Supplies remained relatively short, with 90% of members reporting lead times of 30 days or less, remaining close to the high reached in September 1985 (92%).

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
November	17	48	22	9	4
October	17	45	24	8	6
September	25	34	27	10	4
MRO Supplies %					
November	46	44	8	1	1
October	41	49	5	3	2
September	61	41	4	2	2
Capital Expenditures %					
November	16	4	5	27	48
October	20	5	5	22	48
September	14	4	9	21	52

Semiannual Forecast

By a two to one margin, purchasers feel the first quarter of 1986 will be better than the fourth quarter of 1985. Also, 54% predict that the first half of 1986 will be better than the last half of 1985. One-third of members feel that prices will increase during the first half of 1986, compared with 54% in December 1984. Of that third who believe prices will rise, 64% say increases will be slight, 36% say they will be selective, not across the board. Capital expenditures for 1986 will exceed 1985 levels, say 36% of purchasers; a full 30% expect them to be lower. In spite of general optimism, 60% of members expressed concern about the overall economy for the next twelve months. This is the highest level expressing concern since March 1970 (also 60%).

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of corporate purchasing, Pitney Bowes, Inc.

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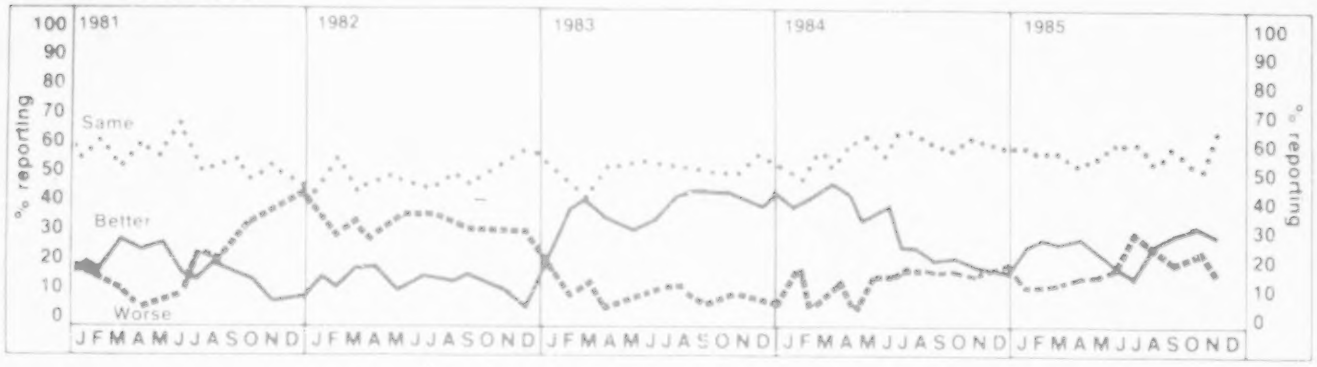
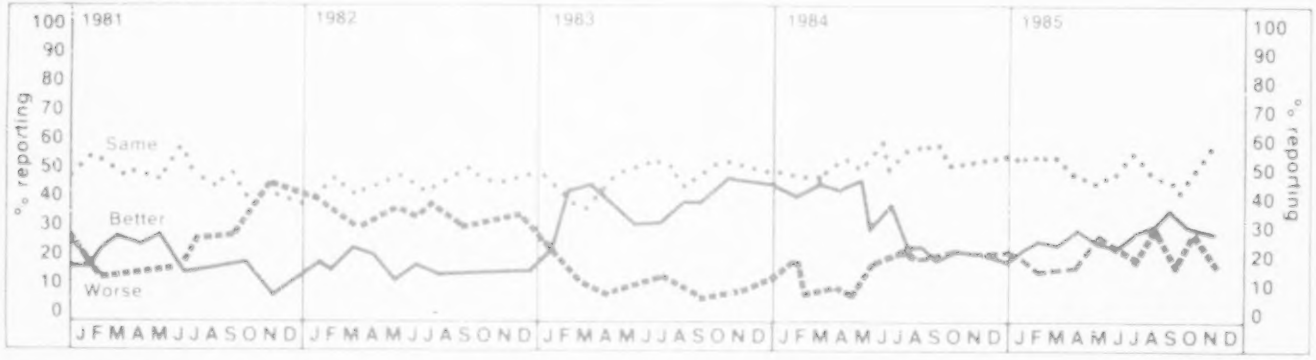
Production



Production improved its rate of growth in November, but only slightly. This was to be expected as a result of the low level of new orders in October. The higher level of new orders registered in November, coupled with reported heavier purchases of materials, suggests there should be greater production activity in December.

Production %	Better	Same	Worse	Net
November	23	62	15	+ 8
October	26	54	20	+ 6
September	23	60	17	+ 6

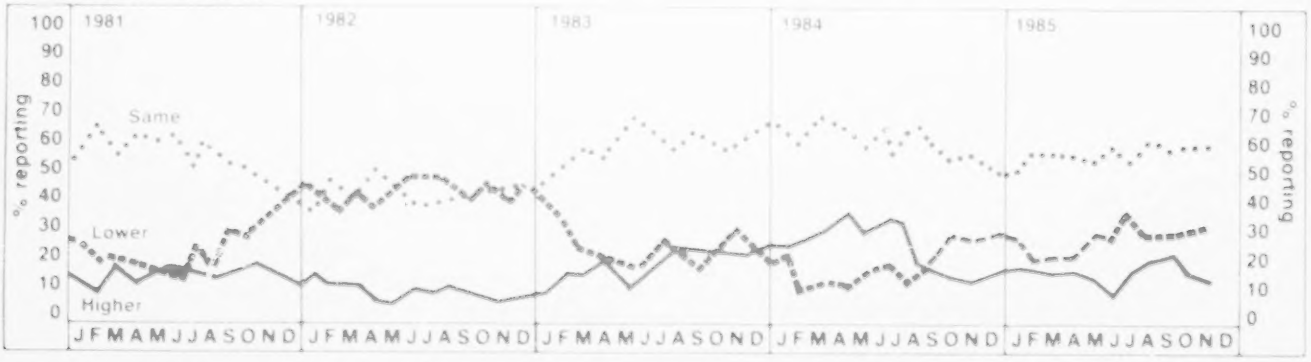
New Orders



After falling in October, new orders registered a favorable gain in November. The 84% reporting new orders as better or the same is the highest percentage since February 1985 (also 84%).

New Orders %	Better	Same	Worse	Net
November	26	58	16	+10
October	27	46	27	0
September	34	46	20	+14

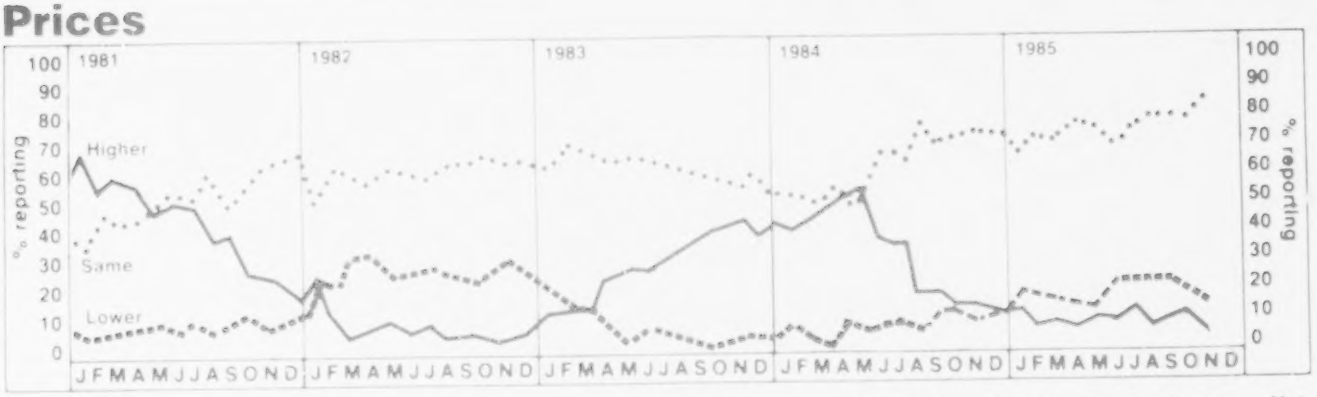
Inventories



The pace of inventory decline quickened in November for the second consecutive month. Even though production continues to improve, purchasers seem confident their suppliers can handle their requirements on short notice and have reduced inventories accordingly.

Inventories %	Higher	Same	Lower	Net
November	12	59	29	−17
October	14	59	27	−13
September	17	57	26	− 9

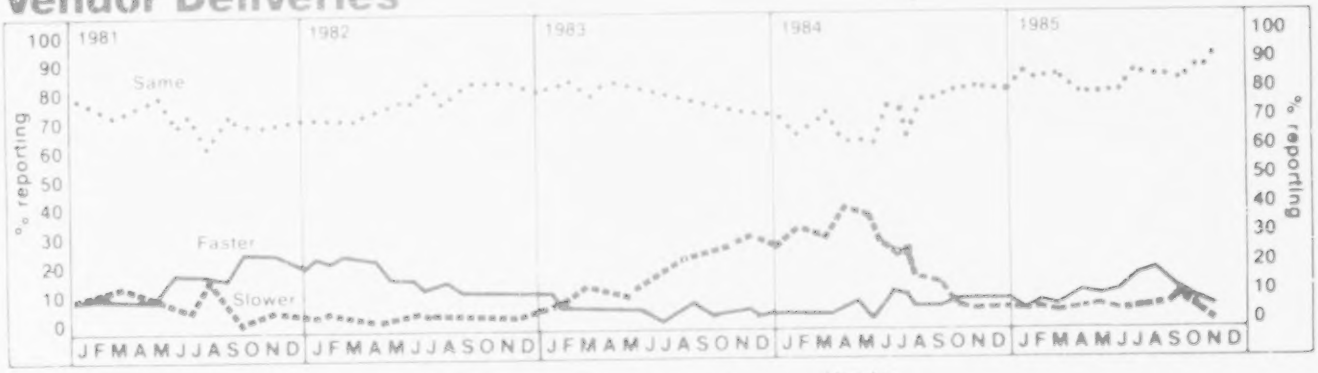
Prices



Prices continue to be a bright spot in the economy to those fearful that higher inflation will return. For a full year, more purchasing managers have reported paying lower prices compared to higher. The 2% reporting higher prices in November is the lowest percentage in over 14 years (October 1971 also 2%).

Prices %	Higher	Same	Lower	Net
November	2	85	13	−11
October	8	76	16	− 8
September	7	74	19	−12

Vendor Deliveries



In spite of the healthy growth in new orders and continued strength in production, purchasers indicate no shortages and slightly improved speed in vendor deliveries. The 2% reporting slower deliveries in November is the lowest since April 1982 (also 2%) and confirms that industry is generally operating considerably below its production capacity.

Vendor Deliveries %	Faster	Same	Slower	Net
November	6	92	2	+ 4
October	7	87	6	+ 1
September	9	82	9	0

Specific Commodity Changes

During November, no items were reported in short supply. This is the tenth consecutive month purchasers have reported no shortages. After twelve consecutive months of being reported down in price, fuel oil prices reversed direction and were reported higher in November. Diesel fuel prices were reported higher for the second consecutive month. Corrugated shipping containers were reported lower in price for the tenth consecutive month. Caustic soda, used to produce the paper from which corrugated containers are made, was also reported lower in price for the fourth consecutive month. Other repeaters on the list of lower priced items for November are steel (third consecutive month) and methanol (second consecutive month).

UP in Price: Fuel oil and diesel fuel.

DOWN in Price: Aluminum, copper, steel, corrugated shipping cartons, caustic soda (used heavily in petroleum refining and paper making) and methanol, a workhorse chemical.

In SHORT Supply: None.

Note: The next issue of the *Report on Business* will be available Jan. 6, 1986.

Commodity Reports

Steel

Prepared by the N.A.P.M. Steel Committee, chairman: Daniel R. Krause, C.P.M., The Budd Company, Troy, MI

We are reminded each day of the continuing problems plaguing domestic steel companies. Plants are still being closed, salary and personnel reductions continue, and some discussion of possible joint ventures is heard. All this will make American steel mills smaller, but more capable of producing better quality material which is more competitively priced in the marketplace.

A new pricing program from the domestic mills will be in effect January 1, 1986. The announced policy would cut flat rolled steel base prices and reduce discounts, a pricing move that could result in higher steel transaction prices next year. All major steel producers have announced this pricing policy. However, previous price agreements for 1986 will be honored. It has been estimated that sheet steel accounts for nearly 40 percent of the domestic mills production, with the automotive sector being the largest user.

Imports of steel products continue to be a concern, since the incoming tonnage is above the government's established policy. It has been reported that steel imports through the first eight months of 1985 totaled 25.4 percent, which is about even with last year's 25.8 percent. There was a reduction of imports in July, however August receipts increased substantially. There are ongoing discussions with the E.E.C. for some reduction in tonnage exported to the United States. There is also concern regarding imports from countries not under the Voluntary Restraint Agreements. Only time will tell how successful the VRAs will be with major steel importing countries.

In September, the N.A.P.M. Steel Buyers Group reported that 3% of their survey members forecast possible shortages of coated material in the next six months. This is the first time since June that shortages have been projected for any material. Lead times for coated material are becoming extended due to market demand. On steel inventory overall, 52 percent of the group will maintain current inventory levels, and 48 percent will decrease inventories.

In response to the question on the trend of general economic activity for the next six months, 90 percent of those steel buyers surveyed think it will remain at current levels.

Domestic steel companies will be negotiating new labor contracts in 1986. Thus the Wheeling-Pittsburgh United Steel Workers contract just ratified could be a pattern for future settlements. Therefore, steel buyers should be aware of possible supply interruptions in 1986, and plan accordingly. (Dean M. Ward, C.P.M., The Maytag Company, Newton, IA)

Energy

Prepared by the N.A.P.M. Energy Committee, chairman: George F. Leymaster, Aluminum Company of America, Pittsburgh, PA

Crude Oil, Distillates and Gasoline

At the end of October, spot crude oil prices were very strong due to the delayed buying tactics of major purchasers during the summer months. The world continues to perceive that crude oil prices will drop next spring by another couple of dollars per barrel.

Residual fuel oil enjoyed stronger summer months, due to peaking demand for electricity. However, in late October, #6 fuel oil fell to its lowest level of the year. The pricing trend of residual oil probably will follow that of spot crude oil.

No. 2 fuel oil inventories reached a 34-year record low level early in the fourth quarter of 1985. This inventory decline caused prices to rise steadily from July through October. Prices will remain high until the purchasing public feels comfortable with this lower level of inventory or until inventories rise. (James H. Kedrowski, Aluminum Company of America, Pittsburgh, PA)

Coal

Coal production in 1985 will be less than it was in 1984, while consumption will increase by several percentages; however, the market remains soft. This paradoxical situation results from consumers continuing to reduce abnormally high inventories during 1985. Stockpiles at the end of September remained about 16 million tons above preferred levels, indicating a soft market well into 1986. Exports are expected to remain fairly stable, while domestic metallurgical coal demand continues to retreat.

Over the next six months, buyers should remain flexible by shopping in the spot market, rather than increasing contract coverage. Contract efforts might best be directed at transportation. Transporters who saw their coal tonnage drop over the last twelve months, may be more receptive to improved volumes, coupled with some reductions in rates. (W.T. Robertson, Jr., C.P.M., Duke Power Company, Charlotte, NC)

Natural Gas

Under a new Federal Energy Regulatory Commission (FERC) rule, an interstate pipeline company that transports gas for any of its customers must offer similar transportation to *all* its customers.

The new FERC rule requires transportation to be on a nondiscriminatory, but voluntary, basis. An interstate pipeline company may refuse to transport gas altogether, but competitive pressures might eventually force it into participating in the open transportation program. The FERC rule does not apply to local distribution companies that sell or transport gas intrastate; they are governed by state rules.

Natural gas users not already buying discount-priced gas directly from producers should investigate the cost savings now possible under the FERC rule. (Ian G. Mackenzie, C.P.M., Corning Glass Works, Corning, NY)

Nuclear Power

Mainly due to the dramatic decrease in demand for electric power and an equally dramatic rise in construction costs, there have been no domestic nuclear power plants ordered since 1979 — and probably none will be ordered for the rest of this decade. But nuclear power is far from dead in the United States. More plants received permission to load fuel in 1985 than in any prior year.

Twenty-five years ago, the average construction time for a nuclear plant was four years. Today, construction time in this country is 12 to 14 years, while France, which generates 60% of its electricity from nuclear power, can build a plant in seven years. To maintain the nuclear option in the United States, construction schedules, and the excessive finance charges which result, must be reduced. To this end, John Herrington, Secretary of Energy, plans to submit a nuclear licensing bill to Congress. (Thomas V. Doyle, Westinghouse Electric Corporation, Pittsburgh, PA)

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National Association of Purchasing Management

Report On Business

January 6, 1986
Volume 4, Number 1

Economic Growth Slows

Purchasing Index Lower

Employment Declines Again

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

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December Report

The economy continued to grow in December, but at a slower rate compared to the previous three months, say the nation's purchasing managers in their latest **Report on Business.** After an improvement in November, new orders fell in December. Considering the normal seasonal decline in December, production was also off, but by a lesser amount. The speed at which vendors deliver remained about the same and inventories were basically unchanged. For the eleventh consecutive month, no shortages were reported. The decline in employment continued. Once again, more purchasers reported paying lower, rather than higher, prices. This is the thirteenth consecutive month that this has occurred.

Traditionally, the industrial economy slows in December, so what we are seeing is not unusual. However, the good fourth quarter and the year were a pleasant surprise. The continued low level of price increases also indicates that inflation is not on the horizon," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** declined to 51.1% in December from 53.3% in November. While this is the first drop in three months, it is the fourth consecutive month that this key economic indicator has registered over 50%. A reading below 50% indicates that the economy is generally in a declining phase; above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The decline in employment is one of the darker spots in the economy. The 95% of members reporting the same or lower employment in December is the highest percentage since November 1982 (96%). The 5% reporting higher employment is also the lowest figure reported since November 1982 (4%).

Employment %	Higher	Same	Lower	Net Differ.
December	5	67	28	−23
November	7	68	25	−18
October	11	64	25	−14

Buying Policy

For production materials, the percentage of members reporting lead times of 60 days or less increased to 91%. This is the largest percentage since these statistics were first surveyed (May 1955) and confirms the relative ease in obtaining materials as well as the lack of shortages. The 91% of members reporting lead times of 30 days or less for maintenance, repair and operating (MRO) supplies has been about the same for four months; it is close to the historic high level reached in September 1985 (92%). However, lead times for capital expenditures in the six months and longer category expanded to 51% compared to 48% reported in October and November.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
December	20	44	27	6	3
November	17	48	22	9	4
October	17	45	24	8	6
MRO Supplies %					
December	45	46	4	3	2
November	46	44	8	1	1
October	41	49	5	3	2
Capital Expenditures %					
December	18	2	6	23	51
November	16	4	5	27	48
October	20	5	5	22	48

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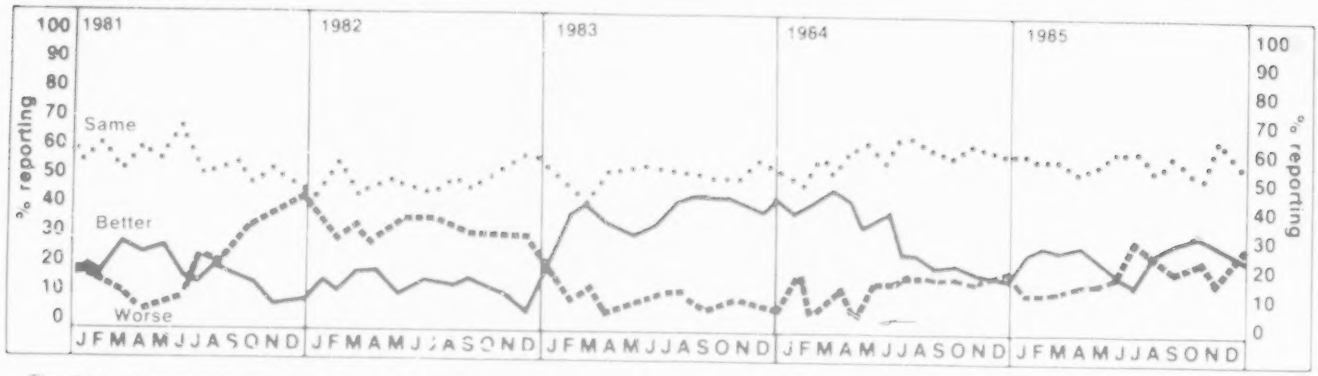
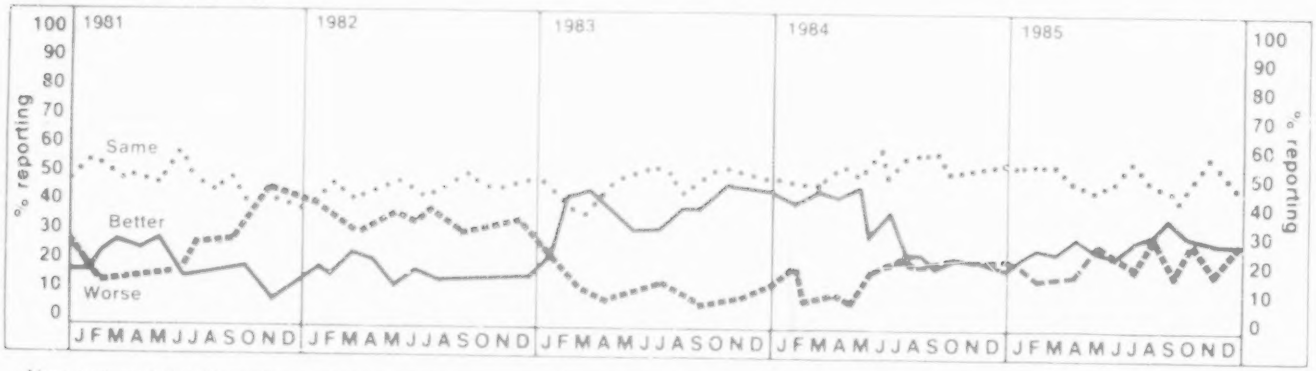
Production



The 24% of members reporting production as being worse in December was up nine points from November, and contributed to the overall lower production (net) figure. Most of the decline can be explained by the normal seasonal slowdown in many industries.

Production %	Better	Same	Worse	Net
December	21	55	24	− 3
November	23	62	15	+ 8
October	26	54	20	+ 6

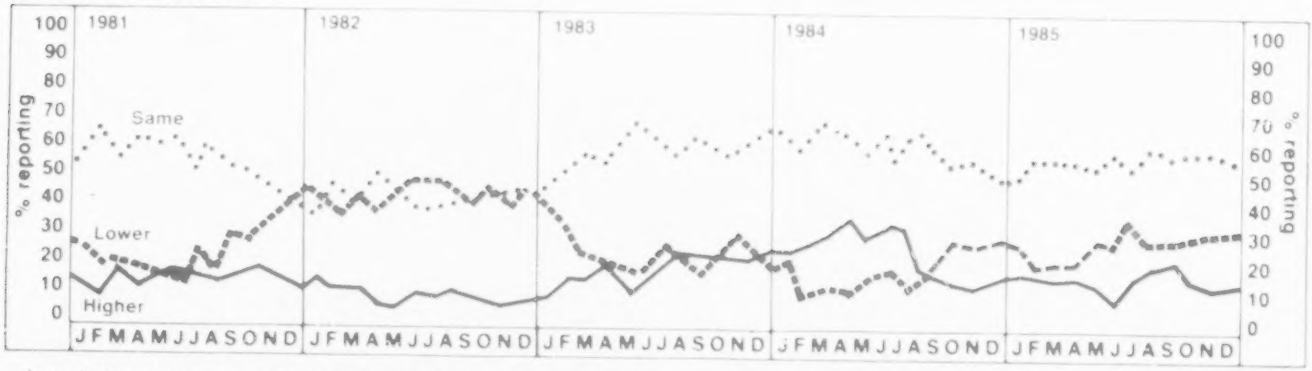
New Orders



New orders fell in December after an improvement in November. Members reporting better new orders in December reached 26%, the same as in November, but the 28% reporting worse new orders was a twelve-point increase. Nevertheless, seasonal adjustments could explain most of this change.

New Orders %	Better	Same	Worse	Net
December	26	46	28	− 2
November	26	58	16	+10
October	27	46	27	0

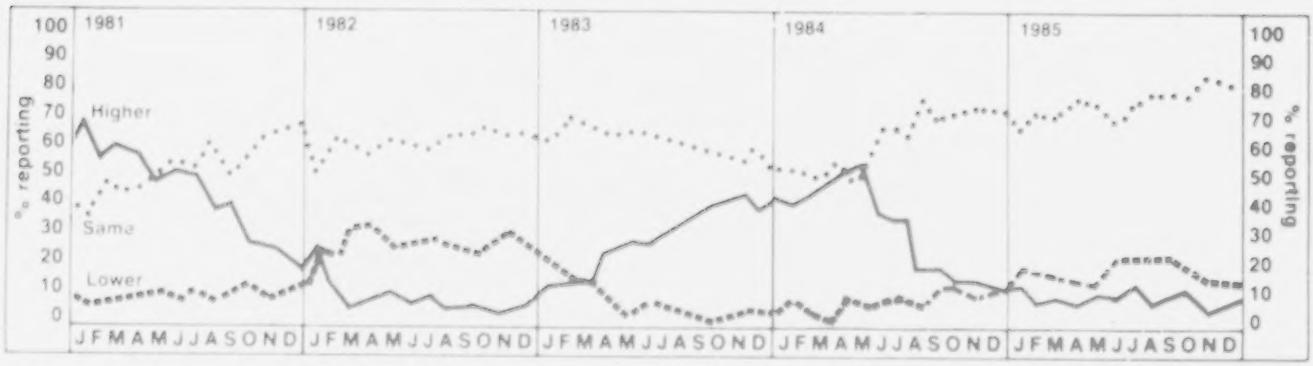
Inventories



Inventories continued to decline at about the same pace as they did last month. Members who indicated their inventory levels were the same or lower totaled 87%, which is only a one-point drop from November's total of 88%.

Inventories %	Higher	Same	Lower	Net
December	13	57	30	−17
November	12	59	29	−17
October	14	59	27	−13

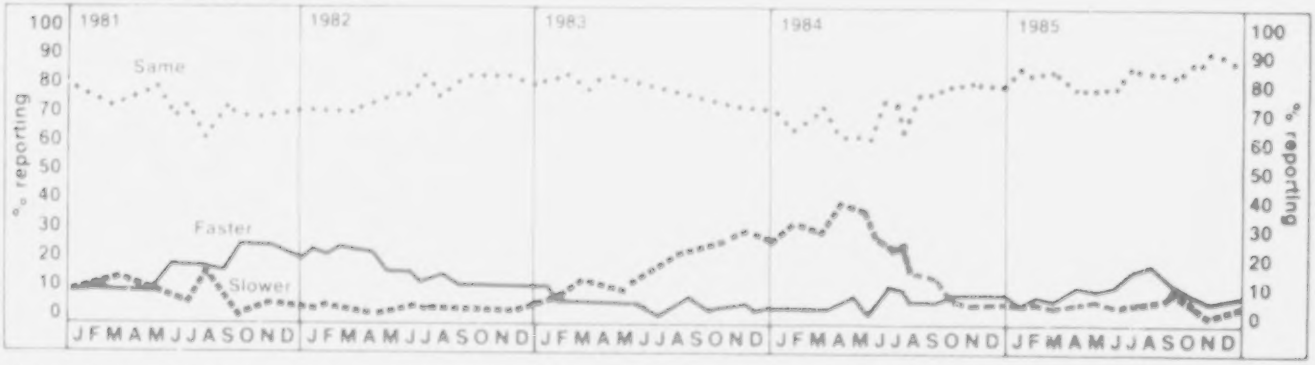
Prices



A continuing bright spot in the economy has been the infrequent and low level of price increases. December marks the thirteenth month that more purchasing managers reported lower compared to higher prices. However, there are some signs that the pace of price decreases is slowing.

Prices %	Higher	Same	Lower	Net
December	8	80	12	− 4
November	2	85	13	−11
October	8	76	16	− 8

Vendor Deliveries



Vendor deliveries remained virtually unchanged in December. Purchasing managers reported that 92% of vendor deliveries were the same or slower compared to 94% in November.

Vendor Deliveries %	Faster	Same	Slower	Net
December	8	87	5	+ 3
November	6	92	2	+ 4
October	7	87	6	+ 1

Specific Commodity Changes

December marked the eleventh consecutive month in which no shortages were reported. Both fuel oil and diesel fuel were reported up in price for the second consecutive month. Prior to November, fuel oil prices were reported lower for twelve consecutive months. Gasoline was reported lower in price for the first time since July 1985. For the eleventh consecutive month, corrugated shipping containers were reported lower in price. Caustic soda, used to produce the paper from which corrugated containers are made, was reported lower in price for the fifth consecutive month.

UP in Price: Fuel oil and diesel fuel.

DOWN in Price: Corrugated shipping cartons, caustic soda (used heavily in petroleum refining and paper making), gasoline.

In SHORT Supply: None.

Note: The next issue of the *Report on Business* will be available Feb. 3, 1986.

Commodity Reports

Non Ferrous Metals

Prepared by the N.A.P.M. Non Ferrous Metals Committee; chairman, George Milne, C.P.M., Delta Faucet Co., Indianapolis, IN.

Zinc

Despite strong demand in the second half of 1985, over capacity in the zinc industry (as well as the recent tin crisis) has depressed prices, including European and LME. Minor production cutbacks have had no immediate effect. Merchants importing cheaper metal had forced North American producers to reduce or discount their list prices.

Between June and November 1985, North American producers were reluctant to lower published prices until forced by obvious market indicators such as the Mint bids. The producer price during this period plummeted 34% from 47¢ to 35¢ per pound, with discounted selling prices two to three cents lower per pound. Heavy discounting threatens North American producer price credibility and pricing mechanisms.

Beyond 1985, little relief is predicted for the zinc industry. (Victoria Radick, National Steel Corp., Pittsburgh, PA)

Lead

In the midst of the heaviest demand period of the year (fall and early winter), lead is being sold at $.185 to $.195 per pound. Primary and secondary lead smelters are operating at close to a break-even point.

Lead production, both in the United States and in the rest of the world, continues to meet and exceed demand. Since lead is a by-product of zinc, copper, and silver in many mines, supply will probably remain plentiful. Secondary smelters, which supply about one-half of the lead consumed in the United States, provide a valuable service by recycling spent lead acid batteries and other scrap lead wastes. Their continued operation is an environmental necessity.

Lead will remain plentiful and the price will remain at current low levels. (T.A. Parker, Exide Corporation, Horsham, PA)

Copper

During the past six months, copper has been in plentiful supply, in spite of steadily declining worldwide inventories. Prices have remained extremely stable due to a lack of speculation, poor consumption, and concerns over the impact of the tin crisis.

During the first half of 1986, higher prices are anticipated, due to increased consumption, further weakening of the dollar, stable or reduced production, and possible contract expiration and work stoppages in the U.S. and Canada. Producers will demand significant concessions to allow them to compete with non-unionized and foreign sources with presumed cheaper labor costs.

Barring major disruption of supply, inventories and prices should remain fairly stable, with comex prices within the $.60-$.66 per pound range. (Fred C. Burke, REA Magnet Wire Co., Ft. Wayne, IN)

Cadmium

Cadmium pricing has not changed since the 1985 mid-year report. Domestic producer prices remain at $1.00 per pound. New York trader prices are now 85 to 90 cents per pound. Some minor price increases may occur early next year.

Cut-backs due to zinc over-production, should bring supply and demand for cadmium into relative balance, creating some firming of prices. (Cadmium is a by-product of zinc production.) Low priced Chinese ingots are still available in quantity to the merchant trade, which should drive prices down. This supply may exist for some time.

Sweden continues to exempt certain cadmium products from the ban on imports and use. The exemption, due to expire the end of 1985, was extended for another two years on certain products. This again should influence other European nations to take a hard look at their proposed future bans. (W.P. Brandes, Kraft Chemical Co., Melrose Park, IL)

Wood Products

Prepared by the N.A.P.M. Wood Products Committee; chairman, Roy Carter, C.P.M., Roseburg Forest Products, Roseburg, OR.

Forest products inventories are below usual levels for this time of year, and there are no signs of normal year-end purchases aimed at building inventories for substantial spring sales. Prices will drift, with potential for a rapid advance if inventories erode (particularly if construction expands). Forest products sales in 1986 should parallel those of 1985.

Northeast

Due to excellent weather, eastern spruce has increased in price. Plywood prices cover a wide range; southern pine prices remain stable, however.

The projected drop in residential construction may suggest a slowdown for the lumber industry early in 1986. Many buyers (hesitant to increase inventories) are buying only for replacements. (Veronica Tufts, Mullen Lumber Co., Sudbury, MA)

Hardwood dimension stock is in plentiful supply. The furniture industry remains slow; mills are soliciting business in the cabinet industry. Pricing is competitive and quality is good. Long term supply, however, may be questionable, particularly when the furniture sector rebounds.

Overseas markets continue to threaten domestic suppliers via extremely competitive pricing, very good quality and dependable, but sometimes extended, deliveries. (Stephen Bresler, Riviera Cabinets, Chester, NY)

Southeast

Most hardwood species have been stable for the past six months with the exception of oak and ash, which have fluctuated.

A slow furniture industry during the past six months has resulted in low mill inventories of hardwoods. A number of mills have closed down permanently due to financial problems. Improved furniture production combined with wet weather conditions could create serious supply problems and escalating hardwood prices during the next several months. (Roy Walters, Jr. Hendredon Furniture Industries, Morganton, NC)

The market for wood products in general is depressed. Lumber is particularly hard hit due to Canadian imports, which have captured a good portion of the soft wood construction market. Prices are soft and availability good. (M.C. Farrell, Masonite Corp., Laurel, MS)

Pacific Coast

Lumber prices and availability should remain constant through the winter months. The market may be reasonably aggressive in the spring, as the number of housing starts should be comparable to that of 1985.

Canadian lumber will continue to flow into the states, which is hard on the producers. Wafer board is continuing to eat away at the sheathing market, with more new plants announced for 1986. (Samuel Craven, Pope & Talbot, Portland, OR)

Great Lakes

It has been a season of very good sales, though prices remain on the low side, as do profit margins. Our industrial business is showing signs of continued improvement. Dealer and retail yard inventories remain lean. Forest products, currently a good value, should remain so for the next few months. (Marcus Hanna, Dougherty Lumber Co., Cleveland, OH)

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National Association of Purchasing Management

Report On Business

February 3, 1986
Volume 4, Number 2

New Orders Surge

Production Expands

Employment Improves

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

January Report

The economy began the year with a show of strength, say the nation's purchasing managers in their latest **Report on Business**. New orders surged higher in January to a level not seen since June 1984. Production also expanded, recovering from the normal seasonal decline in December. Inventory levels rose slightly in January, with purchasing managers reporting increased purchases. The rise in employment was significant compared to the levels of the past several months. For thirteen consecutive months, more members have reported lower, rather than higher, prices, but in January the same percentage of purchasers reported both lower and higher prices.

While January is typically a good month, the persistent strength of the economy is impressive. The substantial increase in new orders suggests a healthy first quarter, said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers Composite Index** rose to 52.4% in January, mirroring the economic improvement. This number reflects the update by the Department of Commerce of the seasonal adjustment factors used to calculate the Purchasing Manager's Composite Index. January's index of 52.4% is an increase from the 51.2% reported in December and 52.1% in November, which were also revised for the updated seasonal adjustment factors. A reading below 50% generally indicates that the economy is in a declining phase; above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment rebounded in January, after hitting a seasonal low point in December when many companies shut down over the holidays. Although still in a decline, the 76% reporting the same or higher employment in January is the highest percentage since July 1985 (80%).

Employment: %	Higher	Same	Lower	Net Differ.
January	12	64	24	−12
December	5	67	28	−23
November	7	68	25	−18

Buying Policy

Lead times for production materials expanded, reflecting the increased economic activity in January. Members reporting lead times of 60 days or less dropped to 85% from 91% in December. The lead time for MRO supplies also widened, as only 85% of members reported lead times of 30 days or less, down from 91% in December. Purchasers indicating lead times of 6 months and longer for the important capital expenditures category expanded to 55% from 51% in December and 48% in both October and November. This is the highest percentage since July 1985 (also 55%).

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
January	21	40	24	10	5
December	20	44	27	6	3
November	17	48	22	9	4
MRO Supplies %					
January	40	45	10	3	2
December	45	46	4	3	2
November	46	44	8	1	1
Capital Expenditures %					
January	17	3	7	18	55
December	18	2	6	23	51
November	16	4	5	27	48

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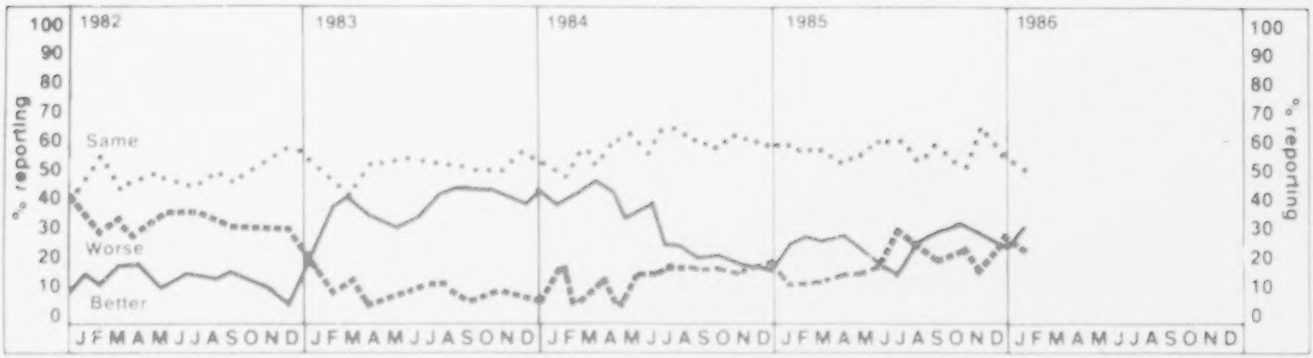
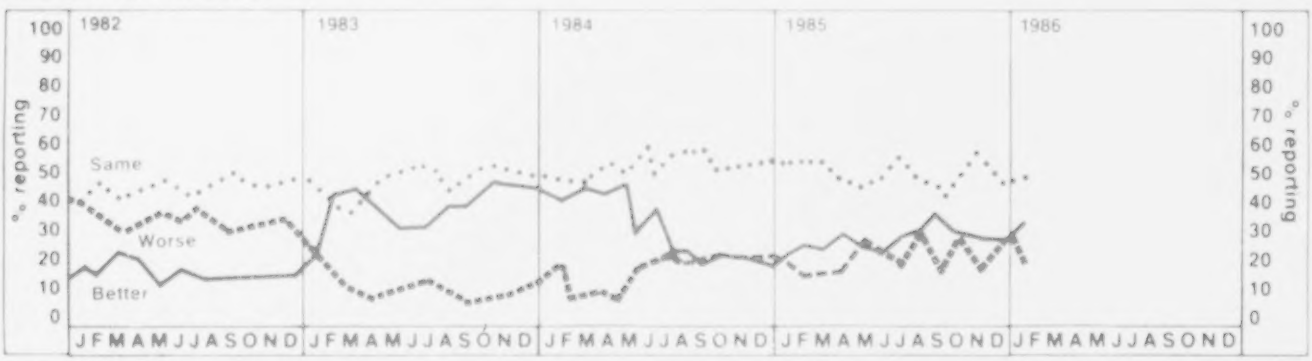
Production



After a normal seasonal slowdown in December, production expanded briskly in January. The 31% of members who indicated that their production was better in January is the largest percentage since June 1984 (35%).

Production %	Better	Same	Worse	Net
January	31	49	20	+11
December	21	55	24	− 3
November	23	62	15	+ 8

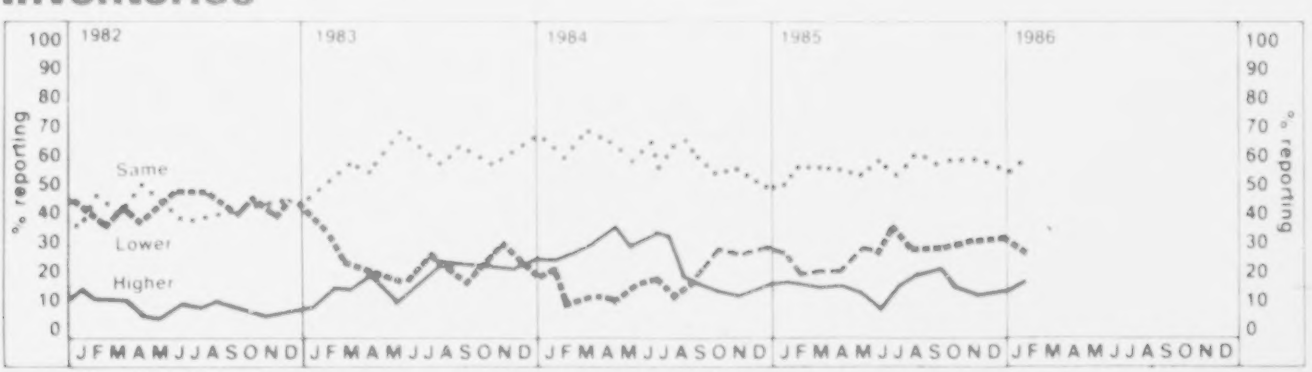
New Orders



New orders increased significantly in January after a seasonal decline in December. The 34% reporting better new orders matched the September figure and is the highest since June 1984. The rise is impressive, even if adjustments are made for a normally strong January.

New Orders %	Better	Same	Worse	Net
January	34	48	18	+16
December	26	46	28	− 2
November	26	58	16	+10

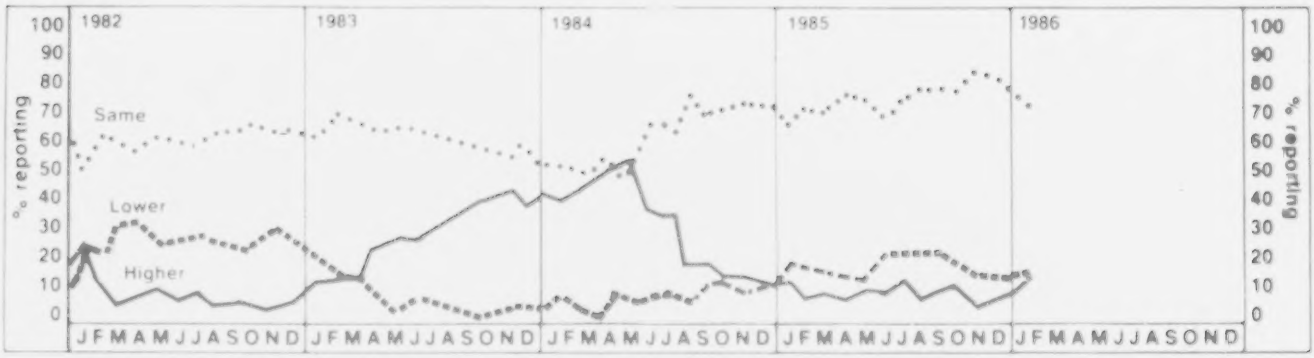
Inventories



The overall rate of decline in inventory levels slowed in January. The 25% of purchasers reporting lower inventory is only 10 points greater than the 15% reporting higher inventories; this is a 7 point net reduction from November and December.

Inventories %	Higher	Same	Lower	Net
January	15	60	25	−10
December	13	57	30	−17
November	12	59	29	−17

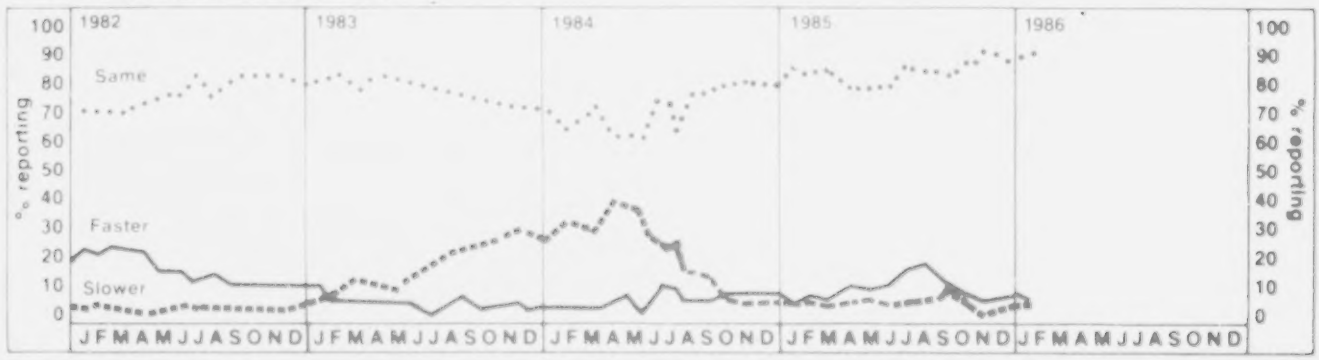
Prices



For thirteen consecutive months, more prices were reported lower, rather than higher. This pattern was broken in January. The number of purchasing managers reporting higher and lower prices is in complete balance. While there does not seem to be any reason for alarm over inflation, this is a trend that should be watched carefully over the next few months.

Prices %	Higher	Same	Lower	Net
January	14	72	14	0
December	8	80	12	− 4
November	2	85	13	−11

Vendor Deliveries



The number of purchasers reporting that their vendors' deliveries were slower in January is the same as those reporting faster deliveries (5%). Overall, the performance level was somewhat slower than that of the previous three months.

Vendor Deliveries %	Faster	Same	Slower	Net
January	5	90	5	0
December	8	87	5	+ 3
November	6	92	2	+ 4

Specific Commodity Changes

Once again, no shortages were reported in January, marking the one-year anniversary of this situation. After rising in price in November and December (following a string of twelve consecutive months in which prices declined), fuel oil prices were again reported lower in January. Another fuel, coal, was also reported lower in price. Gasoline prices were also reported lower, as they were in December. After six consecutive months of reported price decreases, aluminum prices apparently bottomed in December and were reported up in price in January. Corrugated shipping containers were reported lower in price for the twelfth consecutive month. Caustic soda, used to produce the paper from which corrugated containers are made, was reported lower in price for the sixth consecutive month. Electricity was the only energy product reported higher in price.

UP in Price: Aluminum, electricity, and ethylene-based chemicals.

DOWN in Price: Coal, fuel oil, gasoline, corrugated shipping cartons, caustic soda (used heavily in petroleum refining and paper making).

In SHORT Supply: None.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analyses by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available March 3, 1986.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee, chairman Glenn Farber, C.P.M., Vinod Graphics Corporation, Santee, CA.

Recent projections by the American Paper Institute forecast that total paper and paperboard production in 1985 should reach an 8 million tons, which is 2.4% less than the 1984 total production figure.

There are some signs of an increased backlog of unfilled orders for a few grades, as well as an extention of lead times. This is true primarily for uncoated free sheet grades, which have shown a 4.6% increase in production from the first ten months of 1984 through October 1985.

Profits of all the major paper companies have declined drastically from their 1984 highs. This reflects the prevailing major discounts used to meet both foreign and domestic competition. This profit decline will likely have long-range consequences on future modernization and expansion programs at most mills.

Newsprint

This commodity is still in plentiful supply. Domestic shipments were down for the first three quarters of 1985 from their comparable 1984 levels. No shortages are anticipated; prices remain steady but at reduced levels. Capacity still exceeds consumption.

Uncoated Groundwood

The Roto news market has softened since the last report; supplies now are fairly available. Domestic shipments of uncoated groundwood declined over 7% during the first three quarters of 1985, partially reflecting increased imports of these grades. Consumer inventories continue to decline, as does the use of this grade in magazines, commercial printing, and forms.

Coated Papers

These are very readily available; excess supplies of coated publication grades exist. No shortages are anticipated in the near future, and consumption by commercial printers is declining. Additional coated paper capacity is scheduled for 1986-87. Four-week deliveries (or less) and stable prices should continue.

Uncoated Free Sheet

This grade continues to be the growth leader for most mills producing this product. Increases in reprographics, forms, and offset grade shipments continue to encourage added mill capacity, with approximately 1,000,000 tons of added annual capacity projected by 1989. A few mills currently have strong backlogs. Some of this strength is credited to import declines, some inventory building perhaps is due to anticipated price increases during the first quarter of 1986. Deliveries are good; no shortages are anticipated. Heavy discounting is still prevalent in most grades.

Bleached Bristols

There is adequate availability now and for the near future. No added mill capacity is planned; deliveries remain three to four weeks or less. Prices are expected to remain steady for at least six months. Inventories at many converters are decreasing.

Paperboard

Paperboard production is down year-to-date from 1984 levels. Inventories at converters are continuing to decrease. Current availability is excellent and is expected to remain plentiful for the near term. Additional SBS capacity will be added shortly, with deliveries of three weeks or less. User inventories continue to decline. Prices remain steady at discounted levels.

Pulp

The availability of pulp and pulp substitutes is still excessive, with heavy discounting still prevalent. This condition is likely to continue for some time and we keep most paper and paperboard prices at depressed levels. However, production has declined and inventories are down about 2% from the start of 1985, thus supply and demand are getting more in balance.

Notice from the Chairman

My thanks to the many responses received to my plea for added members who is appointed in the October, *Report on Business*. Thanks to your support, we now have fourteen members on the Paper Committee.

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee, chairman Carl D. Urkiel, C.P.M., S.C. Johnson and Son, Inc., Racine, WI.

The packaging and containers market is characterized by adequate supply and stable prices. The exceptions are glass, where there is some tightness of supply, and corrugated and folding cartons, where supply is more than adequate and prices are very weak. However, at the time of this writing, attempts are being made to increase corrugated and resin prices.

Metal Cans

Supply is adequate to surplus; prices have been stable. The can companies have announced price increases for the first quarter of 1986, but some members express doubt as to whether these increases will stick.

Fibre Cans

A continuing migration from fibre to plastic cans is creating a surplus of manufacturing capacity. This over-capacity, plus the importation of fibre can raw materials, are holding prices stable.

Glass

Continued plant closings are causing some tightness of supply, particularly on the East Coast. Prices are stable, but there are some indications of an attempt to increase prices during the first half of 1986.

Molded Plastics

There is plenty of capacity in molded plastics; prices have been stable to weak. However, some resin increases stuck in the fourth quarter and further increases have been announced for the first quarter of 1986.

Films

Film supply is adequate to surplus and prices are weak. However, some concern is being expressed about possible price increases due to increased resin prices.

Laminated Stock

This is a fairly quiet market, with adequate supplies and stable prices. However, one member notes some tightness of supply in certain laminations.

Metal Drums

Not much news exists here — there are adequate to surplus supplies and stable to weak prices.

Fibre Drums

Continental Can has sold their fibre drum division to Sonoco Corporation, but this has had no impact on the market. Plenty of capacity is available and prices are stable. Some increasing attention is being given to fibre drums as an alternative to steel drums and corrugated.

Folding Cartons

This has been a buyers market for all of 1985, and this situation is expected to continue into 1986. Some renewed interest is being shown in paperboard for liquid packaging.

Corrugated

Surplus capacity is reported at the mills and at the converters. Prices have been falling so far and for so long that no one is certain where to find the bottom. Attempts to increase prices have been unsuccessful, although at least one major company has announced an increase. Given the surplus capacity, there certainly is doubt whether any price increases will take hold in the near future.

Bags

This is another weak market — one of surplus capacity and stable-to-decreasing prices. Several bag companies and or divisions have been bought and sold in 1985.

A6910 - 1

National Association of Purchasing Management

Report On Business

March 3, 1986
Volume 4, Number 3

New Orders Expand

Employment Lower

Inventories Higher

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

February Report

The strength in the economy seen in January continued in February, say the nation's purchasing managers in their latest **Report on Business**. New Orders were the up again in February, recording the highest level reached since February 1984. Production was also stronger for the second consecutive month. Inventories rose again for the third month in a row, as purchasers again reported increasing purchases in response to expanding business. On the negative side, employment fell slightly after a significant increase in January, and the speed of vendor deliveries was unchanged. Prices declined slightly in February, this marks the fifteenth consecutive month in which prices have been the same or lower.

"The strength in production and the sustained growth in new orders virtually assures a good first quarter. However, the decline in the Purchasing Managers' Composite Index suggests that the second quarter warrants close scrutiny," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** decreased to 50.9% in February, which is down from 52.4% in January. However, this is the sixth consecutive month this index has registered over 50%. These numbers reflect the update by the Department of Commerce of the seasonal adjustment factors used to calculate the Purchasing Manager's Composite Index. A reading above 50% generally indicates that the economy is in an expanding phase; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference (NET)

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment decreased in February after a healthy rebound in January from lows in December. This lagging indicator has been in a declining trend since April 1984, as industrial employers generally continue to decrease their labor force.

Employment %	Higher	Same	Lower	Net Differ.
February	10	65	25	−15
January	12	64	24	−12
December	5	67	28	−23

Buying Policy

Lead times for production materials expanded slightly in February, which is a reflection of the higher production and new order levels. Members reported that hand-to-mouth lead times declined to 18% from 21% in January, essentially by shifting into the 30-day category. The lead time for MRO supplies was virtually the same. In the important 6-months-and-longer-category for capital expenditures, the percentage fell to 51% from 55% in January.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
February	18	43	25	8	6
January	21	40	24	10	5
December	20	44	27	6	3
MRO Supplies %					
February	41	46	9	2	2
January	40	45	10	3	2
December	45	46	4	3	2
Capital Expenditures %					
February	18	4	7	20	51
January	17	3	7	18	55
December	18	2	6	23	51

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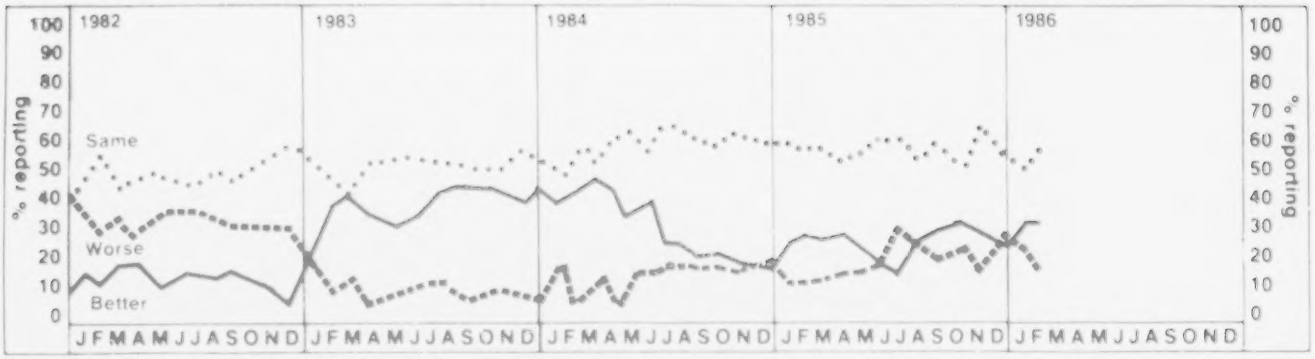
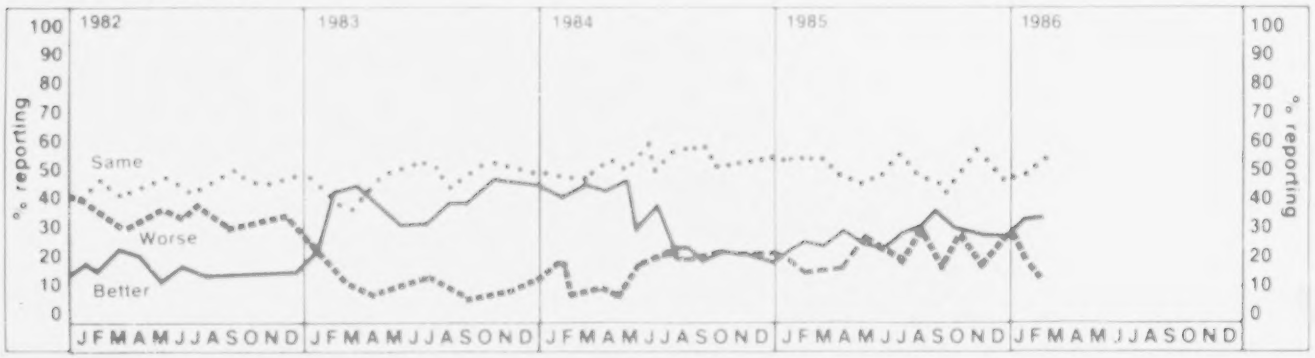
Production



January's brisk expansion in production continued in February. Although the 31% reporting better production in February was no higher than it was in January, the 15% indicating worse production is a drop of five points from January's figure of 20%. This is a healthy overall improvement.

Production %	Better	Same	Worse	Net
February	31	54	15	+16
January	31	49	20	+11
December	21	55	24	− 3

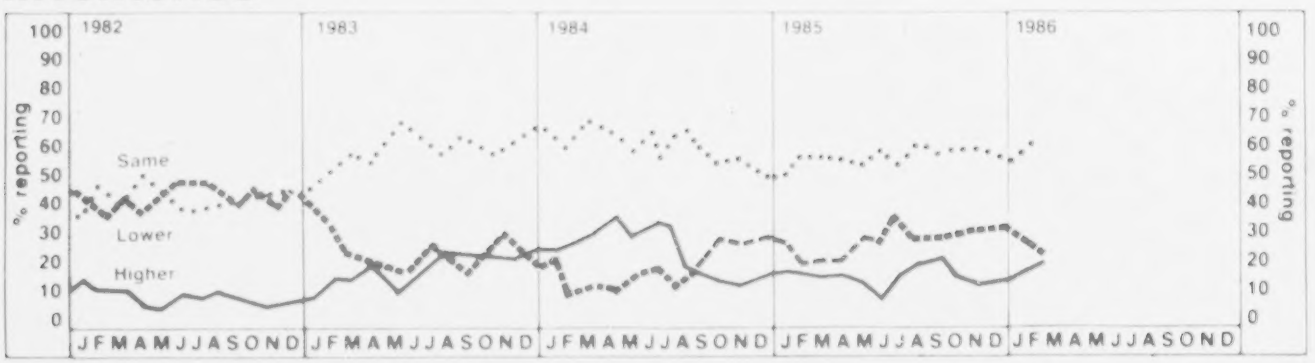
New Orders



The significant increase in the new order level in January grew even larger in February. The 35% reporting better new orders is the highest percentage since June 1984 (37%). The 12% indicating that their new orders were worse is the lowest level since that of April 1984 (6%). This strong showing all but guarantees healthy production levels in March.

New Orders %	Better	Same	Worse	Net
February	35	53	12	+23
January	34	48	18	+16
December	26	46	28	− 2

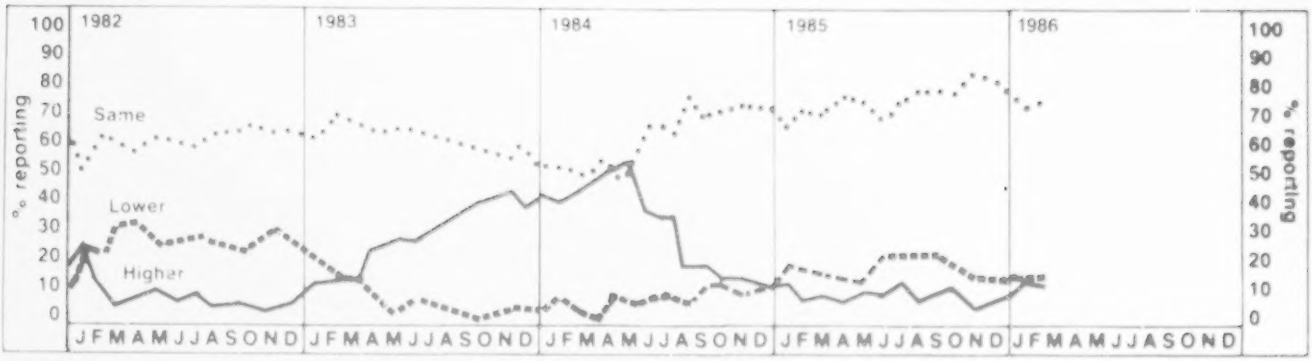
Inventories



As in January, the overall rate of decline in inventory levels slowed in February. While more purchasers reported lower, rather than higher, inventories for the eighteenth consecutive month, the net difference is now only three points. This figure mirrors the increased purchases by members over the past few months.

Inventories %	Higher	Same	Lower	Net
February	17	63	20	− 3
January	15	60	25	−10
December	13	57	30	−17

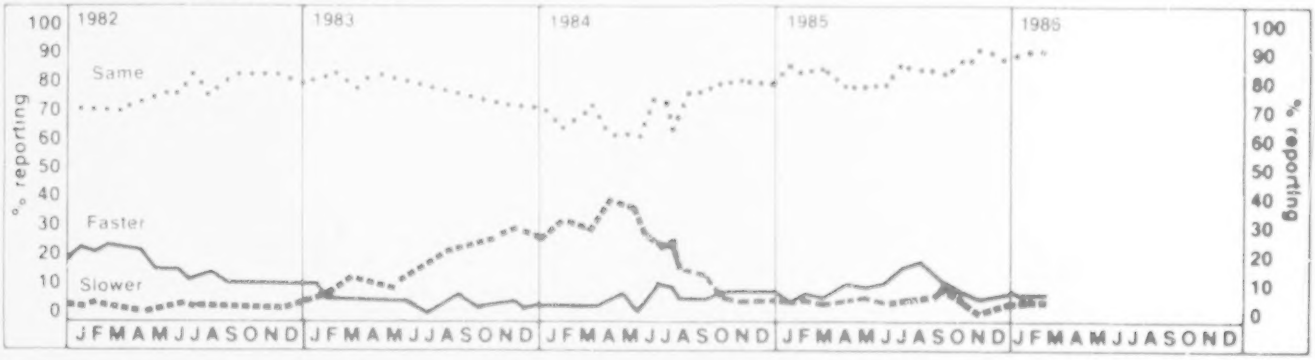
Prices



In February, purchasing managers indicated a return to the pattern of reporting a greater percentage of lower, rather than higher, prices. After thirteen months, this pattern was interrupted in January when an equal number of members reported higher and lower prices. This month's return was undoubtedly triggered by the overwhelming number of purchasers reporting lower prices for fuel oil, gasoline, and petroleum products.

Prices %	Higher	Same	Lower	Net
February	13	73	14	− 1
January	14	72	14	0
December	6	80	12	− 4

Vendor Deliveries



The speed of vendor deliveries in February is unchanged from that of January. There has been little change in vendor performance since September 1985, when the figures appear to have plateaued at current levels.

Vendor Deliveries %	Faster	Same	Slower	Net
February	5	90	5	0
January	5	90	5	0
December	8	87	5	+ 3

Specific Commodity Changes

For the thirteenth consecutive month, no shortages were reported. This time period ties the previous record of thirteen continuous months (from May 1982 through May 1983). After being reported down in price during eleven of the previous fifteen months, steel was reported up in price in February for the first time since September 1984. Virtually all petroleum products were reported lower in price in February, including all fuel oils, gasoline, and diesel fuel. Caustic Soda, used to make corrugated shipping containers, was down in price for the seventh consecutive month. Conspicious by its absence from the list of higher-priced commodities is corrugated containers, which were reported higher in price for the previous twelve consecutive months.

UP in Price: Steel.

DOWN in Price: Fuel oil, gasoline, diesel fuel, miscellaneous petroleum products, and caustic soda (used heavily in petroleum refining and paper making).

In SHORT Supply: None.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce which prepares the monthly Purchasing Managers Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available April 7, 1986.

Commodity Reports

Steel

Prepared by the N.A.P.M. Steel Committee; chairman, Daniel R. Krause, C.P.M., The Budd Company, Troy, MI

On the surface, steel buying today seems to pose little challenge. It has been a buyer's market for a long time, prices are weak, and the N.A.P.M. Steel Buyers Group Survey for January 1986 indicates no anticipated shortages within the next six months (with a minor exception of coated steel sheets).

But something seems to be happening just below the surface that has not yet taken shape. Lead times seem to be lengthening. This could be due to declining industrial production capacity, or due to reduced planned imports of foreign steel (in accordance with voluntary restraint agreements with major off shore producers). During 1985, these voluntary agreements resulted in some reduction in the level of imports; they should have a significant affect in limiting shipments in 1986.

Also, lead times may be lengthening because of inventory building, as well as hedge buying against a potential August 1 strike at one or more domestic mills. (If no labor settlement is made in the first quarter, hedge buying will begin in earnest.) The January Steel Buyers Survey provides some insight: 71% of the responders reported that their inventory levels were about right, 29% said they were too high, but none indicated they were too low. Yet a growing number (from 0% in September 1985 to 11% in January 1986) indicate that they will increase inventories in the next six months, while a declining number (from 48% to 30% over the same period) indicate that they will decrease their inventories. At the same time, nearly an equal number of respondents expect an increase (19%) as expect a decrease (15%) in their industry sales and production levels.

The domestic mills will negotiate independently with the USW this spring and summer (August 1, 1986, is the contracts expiration date). The contract agreements negotiated to date include wage and work rules concessions. The terms of these settled contracts will impact significantly upon the negotiations now beginning. The union will probably grant some concessions, but will resist the deep cuts that management negotiators will seek. If there is to be a strike, an interesting question will be which, if any, company will be targeted by the union. The answers to this and other strategy questions will become clearer as negotiations proceed.

Steel buying may require some insight and imagination in 1986 in order to maintain an uninterrupted supply of steel during what may be a turbulent year. Whether due to a strike (or just the threat of one) or due to reduced supply from foreign producers (or simply the continuing efforts of the steel industry to reverse their slide by whatever means), the steel buyer must be alert this year to the vagaries of an ever-changing market. (John E. Irvine, Del Monte Corporation, San Francisco, CA)

Energy

Prepared by the N.A.P.M. Energy Committee; chairman, Howard T. Perley, C.P.M., International Paper Company, New York, NY

Crude Oil, Distillates and Gasoline

In January, spot crude oil prices fell to their lowest level in the past five years. Crude oil is running below $19 per barrel, with predictions for declines to the $15 per barrel level. Current supply and demand suggests that crude prices will fall until higher-cost crude production is taken off-stream, or until reduced exploration and development finally bring production in line with demand. Crude oil prices will fall in 1986, (perhaps by $2 to $5 per barrel), but should not completely crash. It always seems that a few producers band together and keep the market from completely crashing. This reduction will carry through to all products. By mid 1986, gasoline prices can be expected to be at least 10¢ per gallon below 1985 levels. (J.H. Kedrowski, Aluminum Company of America, Pittsburgh, PA)

Coal

The 1986 outlook for coal production and consumption almost duplicates that of 1985. While 1986 consumption is projected to increase by approximately 2%, production capacity is still far greater. Inventory reductions continue. U.S. utilities still have approximately 160 million tons stockpiled, representing approximately an 81-day supply. Thus, many consumers will continue to buy less than they use over the next six months. Lower petroleum and natural gas prices are pressuring coal prices in some areas of the country. This supply demand situation dictates a continued use of the spot market in the near future as opposed to long-term contracting. Continued attention to coal transportation rates, and to the possibility of making transportation contracts, is suggested. (W.T. Robertson, Jr., C.P.M., Duke Power Company, Charlotte, NC)

Natural Gas

There is considerable confusion in the transportation of end-user-owned natural gas. Only Columbia Gas Transmission, Columbia Gulf, and El Paso have announced that they will be nondiscriminatory transporters after February 15, 1986. Many other pipelines are expected to transport under the new FERC rules before the end of 1986, enabling both large and small industrial users to make lower-priced gas purchases directly from the producer. All users will thus be assured of equal access to interstate transportation. Local distribution companies (LDCs) will also be able to purchase directly from the producer, which should result in lower overall gas prices for industrial, commercial, and residential consumers.

These opportunities (and risks) will be explored in depth at the Energy Committee's May 6th luncheon (code SE) at N.A.P.M.'s International Conference in Atlanta. The luncheon topic will be "Purchasing Natural Gas in Open Access Markets." (R.W. Lauer, PPG Industries, Inc., Pittsburgh, PA)

Electricity

Will the U.S. experience electricity shortages in the 1990's? Yes, say analysts, who note that it is nearly ten years since the last order was placed for a new commercial nuclear plant in this country. No, say those who compare forecasts of electricity demand with utility generating capacities.

Accurate forecasting of future peak electricity requirements is vitally important. Ten years ago, utilities were expecting average electricity demand to grow 7% annually over the following ten years. Actual growth was less than half that, which is why so much excess generating capacity exists today.

For the next ten years, utilities are currently forecasting average demand to grow less than 2.5% annually. If this projection proves correct, reserve generating capacity in 1996 should be adequate, both nationally and regionally. However, if peak demand growth is significantly greater than projected, electricity shortages could develop, as it now takes over ten years to build large power plants. Smaller, high-efficiency, modular coal-fired generating plants may be the solution. (Ian G. Mackenzie, C.P.M., Corning Glass Works, Corning, NY)

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National Association of Purchasing Management

Report On Business

April 7, 1986
Volume 4, Number 4

Production Up Sharply

Vendor Deliveries Slow

Prices Mixed

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

March Report

The economy continued to grow in March, but at a moderate pace, say the nation's purchasing managers in their latest **Report on Business**. Production was at its highest since June 1984. New orders continued to expand in March, but at a lesser rate than the previous two months. Vendor deliveries slowed noticeably and net inventories fell after rising for three consecutive months. These statistics confirm the improved production activity in March. Employment was slightly higher than in February, but still depressed. March marked the sixteenth consecutive month in which prices have been the same or lower.

The report was issued today by Robert J. Bretz, C.P.M., Chairman of the National Association of Purchasing Management's Business Survey Committee and Director of Purchasing and Distribution, Pitney Bowes, Inc. Mr. Bretz said, "As we expected, the first quarter closed solidly. The continued growth in new orders suggests a healthy economy for at least the next 30-60 days, but at a somewhat slower pace than the past few months."

The **Purchasing Managers' Composite Index** decreased fractionally to 50.4% in March, down from 50.9% in February. This leading indicator has now registered over 50% for seven consecutive months. A reading above 50% generally indicates that the economy is in an expanding phase; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The overall net decline in employment continued in March, although at a more modest pace than in February. The 18% reporting lower employment was the lowest since September 1984 (14%).

Employment %	Higher	Same	Lower	Net Differ.
March	11	71	18	– 7
February	10	65	25	–15
January	12	64	24	–12

Buying Policy

Lead times for production materials again expanded somewhat in March, a reflection of the higher production levels and the continued expansion in new orders. Members reporting hand to mouth lead times declined to 15% from 18% in February and 21% in January. This is the lowest since May 1985 (also 15%). Members reporting lead times of six months or longer for capital expenditures rose again to 55% where it was in January, after falling to 51% in February. Lead times for MRO supplies were also extended in the 30 day category to 50% from 46% last month.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
March	15	45	28	5	7
February	18	43	25	8	6
January	21	40	24	10	5
MRO Supplies %					
March	41	50	6	1	2
February	45	46	9	2	2
January	40	45	10	3	2
Capital Expenditures %					
March	15	6	6	18	55
February	18	4	7	20	51
January	17	3	7	18	55

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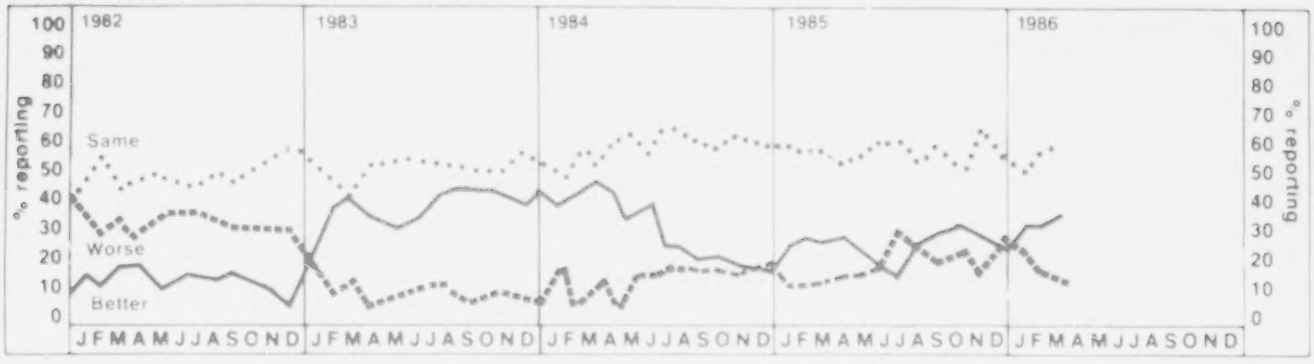
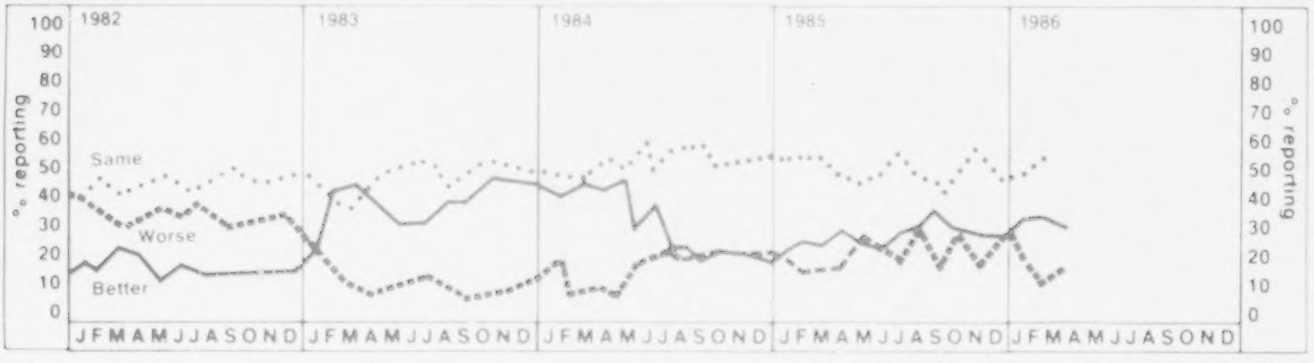
Production



Production levels expanded in March for the third consecutive month. The 35% reporting better production in March is the highest since June 1984 (also 35%) and represents almost a three to one ratio over the 12% reporting production as being worse.

Production %	Better	Same	Worse	Net
March	35	53	12	+23
February	31	54	15	+16
January	31	49	20	+11

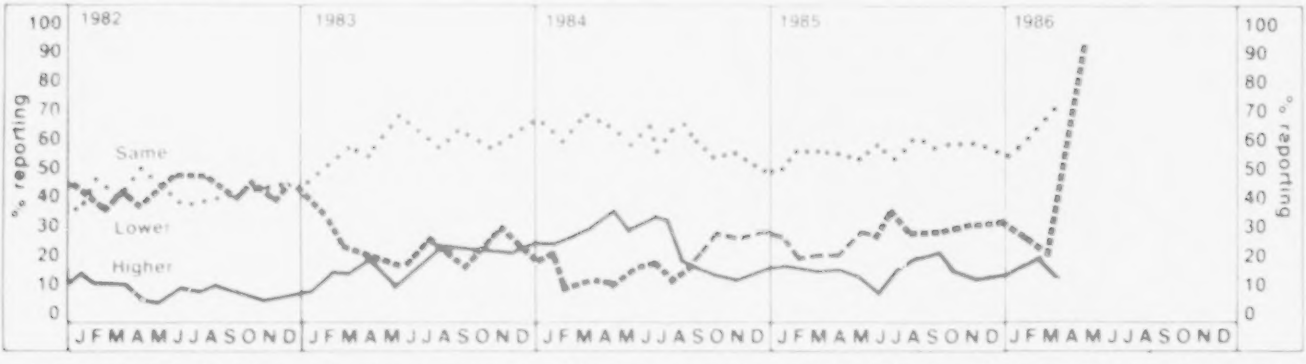
New Orders



The level of incoming new orders in March was off slightly from February but continued relatively high. The 86% reporting new orders as the same or better should sustain a high rate of production through April.

New Orders %	Better	Same	Worse	Net
March	33	53	14	+19
February	35	53	12	+23
January	34	48	18	+16

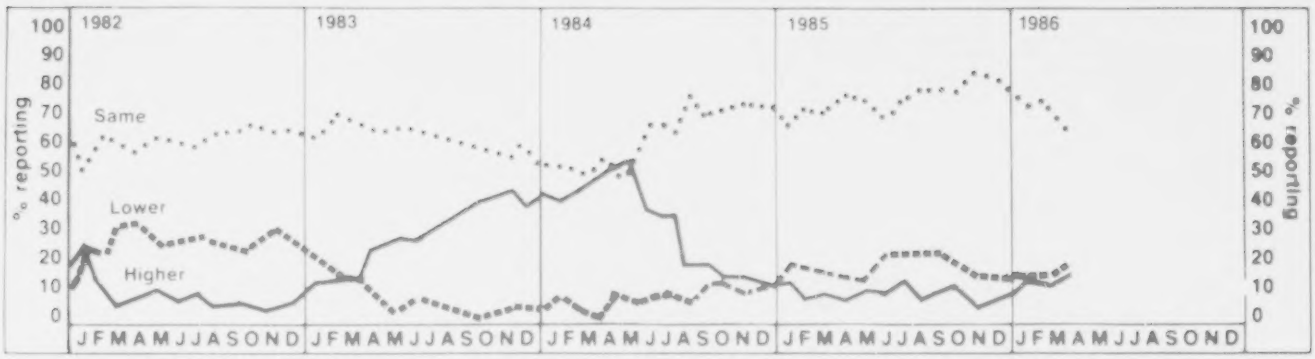
Inventories



The overall rate of decline in inventories continued in March at a slightly faster pace. The 11% reporting higher inventories is the lowest since June 1985 (9%). This reflects the strong demand from increased production as well as the slowing in vendor deliveries.

Inventories %	Higher	Same	Lower	Net
March	11	70	90	− 8
February	17	63	20	− 3
January	15	60	25	−10

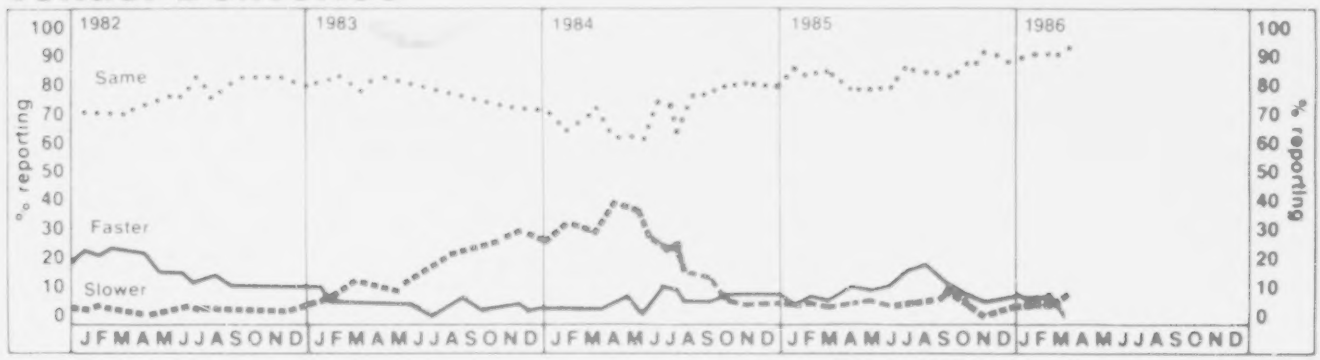
Prices



Purchasing managers reported mixed results in March on the prices they pay for their purchases, with an equal number indicating both higher and lower prices. However, it is noteworthy that the 17% reporting higher prices is the most since September 1984 (19%). As in February, this month's lower prices were strongly influenced by the large number of purchasers reporting lower prices for fuel oil, gasoline, petroleum products, & natural gas.

Prices %	Higher	Same	Lower	Net
March	17	66	17	0
February	13	73	14	– 1
January	14	72	14	0

Vendor Deliveries



The speed of vendor deliveries slowed dramatically in March, mirroring the stronger production levels. The 1% of purchasers who said their deliveries were faster is the lowest since November 1983 (also 1%), which was during the peak period of the current recovery.

Vendor Deliveries %	Faster	Same	Slower	Net
March	1	92	7	– 6
February	5	90	5	0
January	5	90	5	0

Specific Commodity Changes

The string of thirteen consecutive months of no shortages was halted in March as titanium dioxide was reported in tight supply. Energy products, as in February, again headed the list of materials lower in price in March, including all fuel oils, gasoline, diesel fuel, natural gas and miscellaneous petroleum products. Relative newcomers to the lower-price list were plastic resins and products, and phenol (a chemical used in plastic resins). Caustic soda was reported lower for the eighth consecutive month. Two basic commodities, steel and aluminum, were reported higher in price in March.

UP in Price: Steel and aluminum.

DOWN in Price: Fuel oil, gasoline, diesel fuel, miscellaneous petroleum products and natural gas, phenol (used in plastic resins for housing and auto products), plastic resins and products, and caustic soda (used heavily in petroleum refining and paper making).

In SHORT Supply: Titanium dioxide (a lead free pigment used heavily as a whitener in coatings and industrial applications).

Note: The next issue of the *Report on Business* will be available May 5, 1986.

Commodity Reports

Non-Ferrous Metals

Prepared by the N.A.P.M. Non-Ferrous Metals Committee; chairman, George R.A. Milne, C.P.M., Delta Faucet Co., Indianapolis, IN.

Magnesium

The magnesium industry raised their price on December 9, 1985, by five cents per pound. The outlook is for this price to hold for a minimum of twelve months.

Norsh Nydro, a Norwegian firm, is building a new facility in Canada which should be completed late this year. Dow Chemical is running at approximately 50% of capacity and AMAX at roughly 60% of capacity. With this in mind, and the fact that two of the four North American manufacturing facilities are undergoing expansion plans, there is an ample supply of magnesium now and for the near future. (Sharon Sinke, C.P.M., C.L. Frost, Grand Rapids, MI)

Tin

Many important decisions are being made at this time (March 10, 1986) that will influence the price of tin over the next several years. The rescue package for the International Tin Council has failed to materialize, and the LME is scheduled to settle all existing LME positions at approximately $4.11 per pound. The LME probably will not trade tin in the near future. The current shortage of physical tin will be alleviated by the second quarter. With the vast surplus of stocks in the world and no futures market to absorb the tonnage, tin prices are expected to decrease over the next twelve months from their present levels of approximately $3.90 per pound for April delivery.

Nickel

The U.S. Bureau of Mines reports that consumption of nickel for the first eleven months of 1985 was 200,993,000 pounds of contained nickel, compared to 229,643,000 pounds for the same period in 1984; this represents a decrease in consumption of 8.7%.

Consumer inventories at the end of November 1985 totalled 18,077,000 pounds of contained nickel (U.S. Bureau of Mines), or the equivalent of a thirty-day supply. This inventory figure represents a decrease of 8.9% over the same reporting period of 1984. The equivalent days' supply has also decreased by seven days when compared to the same period in 1984.

Published producer prices continue to be posted at $3.20 per pound for melting grade, $3.29 per pound for plating material, and $3.12 per pound for charge grade (Metals Week, March 3, 1986). Spot merchant prices are quoted by the same source at $1.90 to $2.10 per pound.

Stainless steel production remains strong and nickel has shown some signs of recovery. The market has been strengthened by Japan's entrance into the scrap market; firm nickel demand; lower than normal year-end inventories; and Inco and Falconbridge's announcement that they no longer are willing to sell nickel belc v $1.95 per pound (Metals Bulletin, February 21, 1986). (Anthony Apothsas, LTV Steel, Cleveland, OH)

Brass and Bronze

The supply of brass and bronze appears to be adequate. Lead times from the mill are three to four weeks for both coil and rod.

With the soft dollar, we will see a shift in buying from foreign to domestic mills. However, we do not expect any drastic lead time changes for brass or bronze. The mills will continue to have ample capacity. Prices are expected to fluctuate within a relatively narrow range for the first six months of 1986. (Edward M. Straka, C.P.M., Baldwin Hardware Corp., Reading, PA)

Aluminum

Previous reports estimated that ingot prices would continue to creep upwards toward the 65 cents per pound range by the second quarter of 1986. Prices have increased somewhat faster than expected, as 99+ is now selling in the 60 to 62 cents per pound range, with an expectation of a 65 to 68 cents per pound range by June. Obviously, alloy ingot will continue its rise, and a price of 74 to 76 cents per pound for silicon alloys will not be surprising. Billet prices have and will increase in the same manner.

Several factors have contributed to change the aluminum scene: the steadily decreasing value of the dollar; improvement in European and South American economies; a continued reduction of domestic capacity (less than 68% in late January); the forthcoming negotiations for expiring labor contracts in late May; and the constant decline of domestic inventories.

Supply could become a problem during the second quarter. Reliable sources state that several of the primary producers are seeking to purchase large tonnages of metal, notably pure ingot, on the open market for their own usage. Such action reduces the availability of material for spot buys. There are some indications that steady purchasers of ingot from specific houses will not have any difficulty obtaining their needs. For smaller quantities, however, the spot buyer may face some risk.

During the second quarter certainly, and perhaps during the third, the buyer who plans and negotiates aluminum purchases should have no problem in meeting his or her needs when desired, and at a reasonable price — possibly below the stated price. (Ted Campbell, C.P.M., Morris Bean & Company, Yellow Springs, OH)

Textiles

Prepared by the N.A.P.M. Textile Committee; chairman, Harold Scott, C.P.M., K-Products, Inc., Orange City, IA.

Cotton, Polyester, Greige Goods

During the past eighteen months, prices in general have become extremely depressed; in many cases, business operated at a loss. In 1986, we will be contending with a "monster" market, created by competition for a limited amount of business. Suppliers will attempt to do whatever is necessary to improve margins. The thinking is: "If we cannot make money under these favorable business conditions, then we might as well close our doors." This is going to make purchasers' jobs that much tougher this year.

The main problem is that depressed prices have been translated into selling prices at the retail level. The retail community is stating that they will accept no price increases, which means the buck stops in purchasing once again. This truly will be a year of tough negotiations to keep prices under control.

The farm subsidy issue caused many manufacturers to hold off second-half commitments until future events were better defined. Now that this has been clarified, there could be a significant surge in contract placement for yarns with significant cotton content. This could push the market to another plateau. Prices for such yarns could be down 10 to 15 cents per pound in August through December. It will be necessary for contracts to carry a clause or agreed-upon formula to protect the buyer on this cost implication.

Carpet

The supply of raw materials is adequate for the year, except for a possible problem with jute by mid-year. Material prices are mostly steady, except for petroleum-based materials and wools; fluctuating prices for these items are due to currency exchange variations.

Specialty Fabrics

The coming year should see very modest increases in converting and specialty fabrics. Because of this moderate demand, pricing and leadtimes will stay very competitive for at least nine months. However, there could be slight pressure for minor cost building toward the end of this year. Bearing this in mind, now would be the time to improve quality and, at the same time, make long-term commitments for stable pricing and delivery during the balance of 1986. (Larry N. Parkes, C.P.M., Champion Products, Inc., Rochester, NY; Stanley Albright, C.H. Masland and Sons, Carlisle, PA; and Richard Blumenstein, Steelcase, Inc., Grand Rapids, MI)

A6910-1

National Association of Purchasing Management

Report On Business

May 5, 1986
Volume 4, Number 5

Purchasing Index Falls to 48.7%

Production Off; New Orders Steady

Prices Continue To Decline

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

April Report

The economy slowed in April, say the nation's purchasing managers in their latest **Report on Business.** Production levels decreased from the high levels experienced since January. However, new orders remained up. The 37% of members reporting better new orders is the largest percentage since June 1984. The speed of vendor deliveries increased, reflecting the reduced production level. Net inventories fell for the third consecutive month. Employment declined in April after improving slightly in March. Prices tumbled in April, registering the seventeenth consecutive month in which prices have been the same or lower.

"The economy entered the second quarter at a decidedly slower pace with production, inventory, and employment levels down. However, the rate of new orders continues strong. Combined with lower inflation, these could be the basis for an improving economy in the months ahead," said Robert J. Bretz, C.P.M., chairman of the Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** decreased to 48.7% from 50.4% in March. This ends the run of seven consecutive months that this leading indicator has registered over 50%. A continuation under 50% would be of concern. The index was last under 50% for seven months from February through August 1985. A reading below 50% generally indicates that the economy is in a declining phase: above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment levels continued at a depressed level in April. The 3-point increase in those reporting higher employment (from 11% to 14%) was less than the 4-point decrease in those indicating lower employment (from 18% to 22%).

Employment %	Higher	Same	Lower	Net Differ.
April	14	64	22	– 8
March	11	71	18	– 7
February	10	65	25	–15

Buying Policy

Lead times for production materials were virtually unchanged in April from March, as 62% of members reported lead times of 30 days or less. The 53% reporting lead times of six months or longer for capital expenditures was down from 55% in March. After extending in March, lead times for MRO supplies declined in the 30-day category to 46% from 50%.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
April	16	46	22	10	6
March	15	45	28	5	7
February	18	43	25	8	6
MRO Supplies %					
April	41	46	9	1	3
March	41	50	6	1	2
February	41	46	9	2	2
Capital Expenditures %					
April	17	4	5	21	53
March	15	6	6	18	55
February	18	4	7	20	51

Semiannual Forecast

Purchasers forecast that the economy will continue to grow moderately in 1986. By a margin of 3 to 1, purchasers expect that 1986 will be better than 1985. A significant 46% said the first quarter of 1986 proved to be better for their companies than was the last quarter of 1985, with 36% saying they are currently operating at 90% or greater of plant capacity. Moreover, 48% believe that the second quarter of 1986 will be even better than was the first quarter. Growth is expected to continue throughout the third and fourth quarters with 46% of members predicting that the second half of 1986 will be better than was the first half. Purchasers expect prices to increase only slightly, on a selective basis, during the balance of 1986. While members appear uncertain about continued growth into the first quarter of 1987, overall they are very optimistic about the next twelve months.

In their last Semiannual Forecast (December 1985), purchasers had predicted that the economy would expand in the first quarter of 1986, accelerate its growth in the second quarter, experience inflation through the first half of 1986, and that 1986 would be better than 1985.

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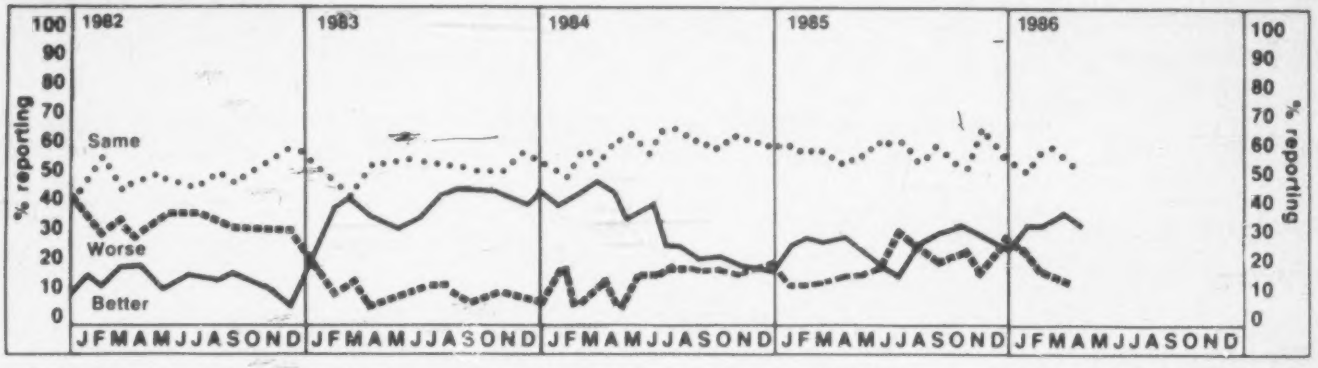
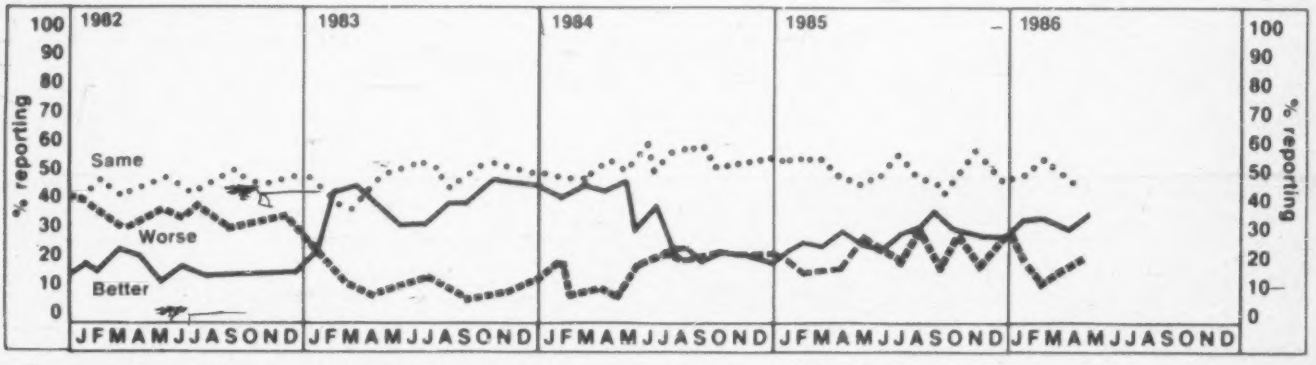
Production



Production decreased in April after increasing for the past three months. The 32% indicating better production was more than offset by the 18% reporting worse production, resulting in a net difference decline to +14 from +23 in March.

Production %	Better	Same	Worse	Net
April	32	50	18	+14
March	35	53	12	+23
February	31	54	15	+16

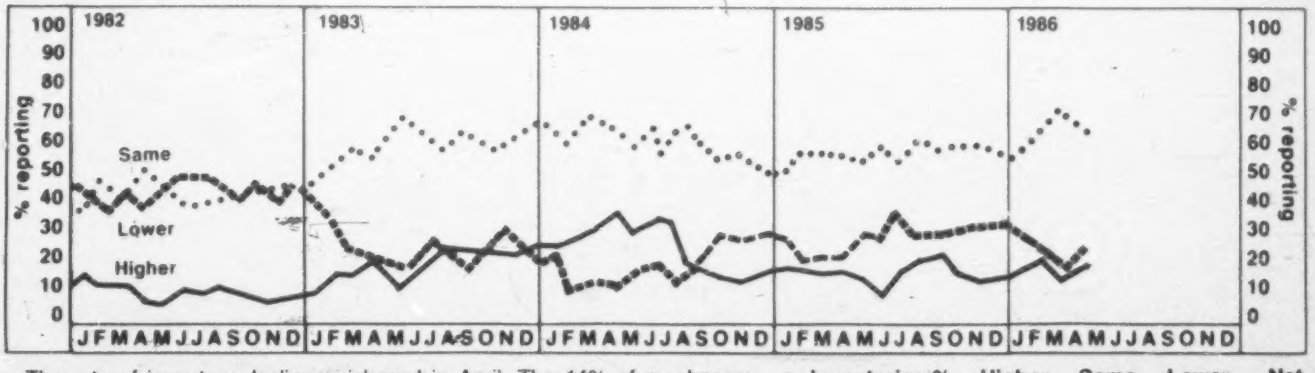
New Orders



The level of new orders remained basically unchanged from the high rates of the previous three months. The 37% reporting better new orders in April w the highest percentage reported since June 1984 (also 37%). However, this was offset by the increase to 18% of those reporting new orders as worse. Thus the net difference remained the same (+19).

New Orders %	Better	Same	Worse	Net
April	37	45	18	+19
March	33	53	14	+19
February	35	53	12	+23

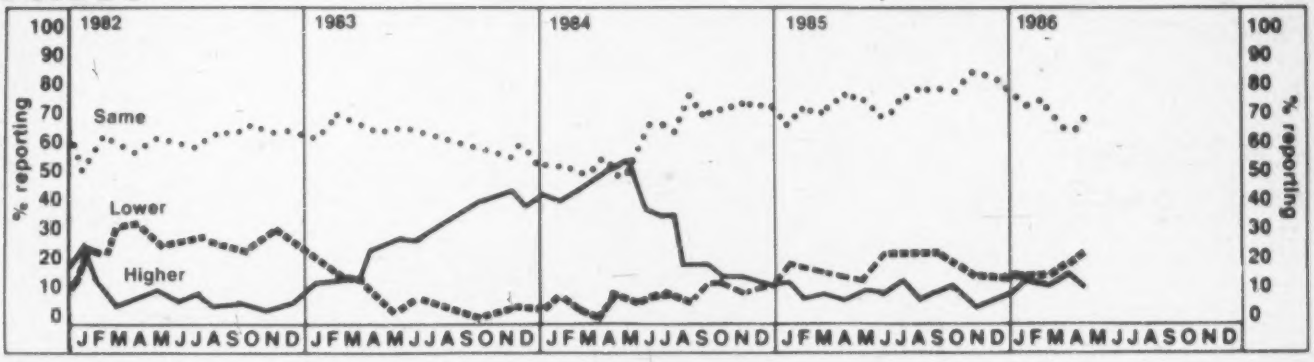
Inventories



The rate of inventory decline quickened in April. The 14% of purchasers reporting higher inventories was more than offset by the 24% who said their inventories were lower, resulting in a continued drop in the net difference to −10 from −8 in March and −3 in February.

Inventories %	Higher	Same	Lower	Net
April	14	62	24	−10
March	11	70	19	− 8
February	17	63	20	− 3

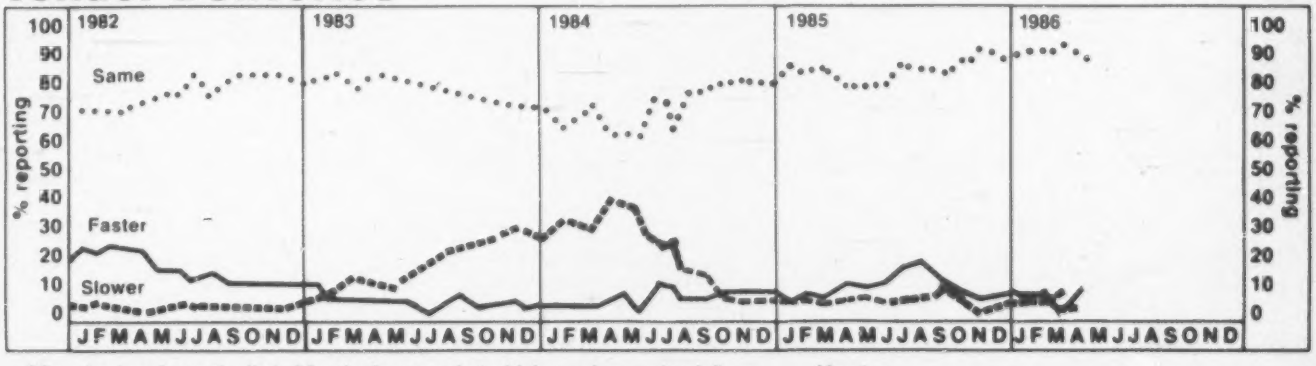
Prices



Prices declined further in April as the effects of lower petroleum prices rippled through to related products. The 21% reporting lower prices is the largest percentage reported since June 1985 (23%). April is the fifteenth of the last seventeen consecutive months in which more purchasing managers reported lower, rather than higher, prices.

Prices %	Higher	Same	Lower	Net
April	11	68	21	−10
March	17	66	17	0
February	13	73	14	− 1

Vendor Deliveries



After slowing dramatically in March, the speed at which vendors make deliveries increased, reflecting the slowing in production and the related demand for materials. Except for titanium dioxide being reported short in March, it has now been fifteen consecutive months in which no shortages were reported.

Vendor Deliveries %	Faster	Same	Slower	Net
April	5	88	7	− 2
March	1	92	7	− 6
February	5	90	5	0

Specific Commodity Changes

Once again, energy products were reported lower in price in April. This included fuel oil, gasoline, miscellaneous petroleum products, and (for the first time since January) coal. For the second consecutive month, plastic products and phenol, used in making plastic resins, were lower in price. Caustic soda was reported lower in price for the ninth consecutive month. Two other chemicals, alcohol and benzene, were reported down in price. Steel prices were up for the third consecutive month, and aluminum was up in price for the third time in the past four months. Corrugated shipping containers were reported higher in price, after being reported down in price for the twelve consecutive months ending in January 1986.

UP in Price: Steel, aluminum, and corrugated shipping containers

DOWN in Price: Fuel oil, gasoline, miscellaneous petroleum products, coal, phenol (used in plastic resins for housing and auto products), plastic products, alcohol, benzene (used as a chemical solvent and in motor fuels), and caustic soda (used heavily in petroleum refining and paper making)

In SHORT Supply: None

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available June 2, 1986.

Commodity Reports

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

Overall, the packaging and containers market is characterized by adequate supply and stable prices. Attempts are being made to increase corrugated and plastic prices with mixed results. It appears that no serious damage was done by the can strike, but now concern is being expressed about possible strikes in the steel and aluminum industries. Glass containers continue to be in tight supply.

Metal Cans

Prices are stable and supply is adequate. There are some residual effects from the recently settled strike; the next concern is a possible steel strike in August. Metal cans are losing out to alternative packages.

Fibre Cans

Supply is adequate to surplus, and prices are stable to weak. This market continues to be impacted by the conversion of oil cans to plastic.

Glass

The glass supply continues to be tight due to previous plant shutdowns. Long lead times are common, and some price increases have been implemented.

Molded Plastics

The collapse of oil prices is not being reflected in resin prices, and producers are attempting to increase margins. The outlook on resins is cloudy — they may go up or down. Supply is adequate and some price increases have held.

Films

Supply of films is adequate to surplus. Some price increases have been implemented due to resin increases. Again, the future for resin prices is cloudy due to manufacturers attempting to increase margins by taking advantage of the collapsing oil prices. One member mentions that the Koreans are trying to buy their way into this business.

Laminated Stock

Supply is adequate and prices are relatively stable. Concern is being expressed over a possible strike by the aluminum foil producer unions.

Metal Drums

This is a buyer's market, offering plenty of capacity and weak pricing. Some volume is being lost to plastic. Concern is being expressed regarding a possible steel strike in August.

Fibre Drums

Plenty of capacity exists for fibre drums and prices are stable. Manufacturers are trying to find new uses for this container.

Folding Cartons

This continues to be a buyer's market, with plenty of capacity and weak pricing. Some progress is being made toward developing this product for liquid packaging.

Corrugated

It is the same old story on corrugated, with plenty of capacity and suppliers trying to implement price increases with little success. There is little reason to believe that this scenario will change significantly, although the export market on liner board is strengthening due to the weakening dollar.

Bags

The bag market is strengthening. Some price increases have stuck and supply is still adequate.

Attention Readers!

The Packaging & Containers Committee is looking for more members. The only obligation is to complete a short survey four times a year. If interested, please contact the chairman, Carl D. Dirkse, at S.C. Johnson & Son, Inc., 1525 Howe Street, Racine, WI 53403, (414) 631-3237.

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

During the recent American Paper Institute Paper Week in New York City, the overall pulse of the paper industry appeared to be upbeat and optimistic. With the exception of light weight coated, all grades seem to be running very close to capacity. Bouyed by recent price hikes and import reductions affecting several grades, most mills feel that business will be strong and increasingly profitable — at least for the first half of 1986.

The final 1985 production figures, as compiled by A.P.I., were 67.2 million tons of paperboard and paper production. This came to within 1.8% of the 1984 record production level. Of the total 67.2 million tons, 34 million tons were paper production. The growth leader in the paper production segment was uncoated free sheet paper, which increased 5.6% above its 1984 level. All other grades except tissue papers were flat or declined in total production in 1985.

Newsprint

Newsprint supplies remain abundant; some Canadian and U.S. mills are operating below capacity. Offshore tonnage from Scandinavia still causes concern among North American suppliers, resulting in continued depressed prices. Consumption remains steady with inventories at normal or below normal levels due to excess availability. Newspapers consume the largest supply of paper in the U.S., with a projected consumption of 13.5 million tons annually by 1988. Rumored price increases have not materialized. Labor talks are starting with some British Columbia mills.

Uncoated Groundwood

The availability of this commodity is good to excellent. Seasonal decline in demand is normal for this grade during the spring; demand should increase as the summer season approaches. No additional capacity is anticipated in the near future. Considerable amounts of this grade are imported. Domestic deliveries remain very good; inventories continue to decrease.

Coated Papers

All coated grades are readily available. There is an excess capacity of light weight coated. All respondents report a three to six month projection of abundant availability with only one buyer anticipating some possible tightness as the summer months approach. The light weight coated market will likely stay very soft due to a slowdown in magazine growth, plus the inroads being made by high quality super calendar and roto news sheets. Inventories remain steady or declining; prices are steady or declining on certain grades. Considerable additional capacity is scheduled for 1986, 1987, and 1988, which should hold prices steady for the foreseeable future. The output of No. 3 and No. 4 coated groundwoods should reach 1.338 million tons per year by 1988. There is also a definite shifting from 60 lb. to 50 lb. basis weight for these grades. Demand for the No. 5 light weight coateds should reach 4.819 million tons by 1988.

Uncoated Free Sheets

The growth of this commodity, along with the 20% or greater decline of imports in 1985, has definitely made this grade the shining star of the paper industry. Most uncoated free sheet mills are running very full with a few imposing "reservations" (quasi-allocations) on their customers. Plenty of availability remains, but buyers are not necessarily calling the shots. Mills have successfully implemented additional price increases (two so far in 1986 for some grades). Capacity growth in April might moderate the demand somewhat. Additional startups later this year and in early 1987 will probably keep the supply ahead of demand. However, no additions have been announced beyond early 1987; thus late 1987 or 1988 could become very tight for this grade. This commodity has experienced the most radical change of any of the grades since our last commodity report. Close watching is recommended.

Bleached Bristols

Currently, this grade appears to be readily available but there are indications of some tightening. Buyers appear to be increasing inventories slightly, and lead times are stretching out slightly. Selected price increases (with possible further increases on file folder) may come in the second quarter of 1986.

Paperboard

Paperboard production in 1985 was down 2.5% from 1984 levels. Thus, supplies remain generally ample with only some tightness in the light weight krafts. There is some indication of mill backlogs building for SBS board, but no availability problems are expected for the next six months. The resumption of Jacksonville Kraft should relieve some pressure in the kraft paper market. Mill deliveries are still running about four to six weeks for kraft papers. For SBS and recycled grades, availability is still adequate; delivery is four weeks or less, and no shortages are expected. Prices are somewhat depressed although there is some evidence of possible increases or firming of discounted prices. Linerboard grades are making a great improvement in the export market. If this trend continues, it could stimulate a price increase in the domestic market, since export prices are higher than current domestic prices. Respondents anticipate some increased inventories in these grades.

Pulp

As reported last, pulp producers have dramatically reduced available inventories. In February, there was an indication of a possible second round of price increases in the pulp market; this will definitely stimulate higher paper prices as the mills pass on these pulp increases. However, if current price increases hold, further increases in the next six months will probably be averted.

A6910-1

National Association of Purchasing Management

Report On Business

June 2, 1986
Volume 4, Number 6

Purchasing Index Recovers to 54.4%

New Orders Continue Strong

Employment Improves

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

May Report

Rebounding from a slow April, the economy improved in May, say the nation's purchasing managers in their latest **Report on Business.** While production levels were slightly lower, new orders maintained the strength registered in the previous four months, and were even more impressive considering seasonal adjustment factors. Most important, the Purchasing Managers' Composite Index was up dramatically to 54.4%. Employment, weak in April, increased in May. The speed of vendor deliveries was unchanged, but inventories increased for the first time since February. For the eighteenth consecutive month, prices were reported the same or lower. However, in May the gap narrowed between those reporting higher prices compared to lower.

"The economy definitely improved in May. Virtually all indicators were up, with new orders leading the way. If this trend continues, the second quarter should show a healthy improvement over the first," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** increase to 54.4% represents a quick recovery from the 48.7% registered in April (which was the first fall below 50% after seven consecutive months of being over that mark). A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment improved in May, while still remaining depressed. The 17% of members reporting lower employment levels is down from 22% in April, and is the lowest percentage reported since September 1984 (14%).

Employment %	Higher	Same	Lower	Net Differ.
May	13	70	17	– 4
April	14	64	22	– 8
March	11	71	18	– 7

Buying Policy

The improvement in the economy in May apparently did not cause purchasers to lengthen lead times. Those who reported hand-to-mouth buying of production materials rose to 21%, up from 16% in April. MRO supplies are also in adequate supply as 44% of members reported purchasing hand-to-mouth, an increase from 41% in April. For the first time since February 1985, nobody had lead times of six months or longer for MRO supplies. In capital expenditures, lead times expanded only slightly, with 10% reporting lead times of 30 days compared to 4% last month.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
May	21	40	26	7	6
April	16	46	22	10	6
March	15	45	28	5	7
MRO Supplies %					
May	44	46	7	3	0
April	41	46	9	1	3
March	41	50	6	1	2
Capital Expenditures %					
May	16	10	4	16	54
April	17	4	5	21	53
March	15	6	6	18	55

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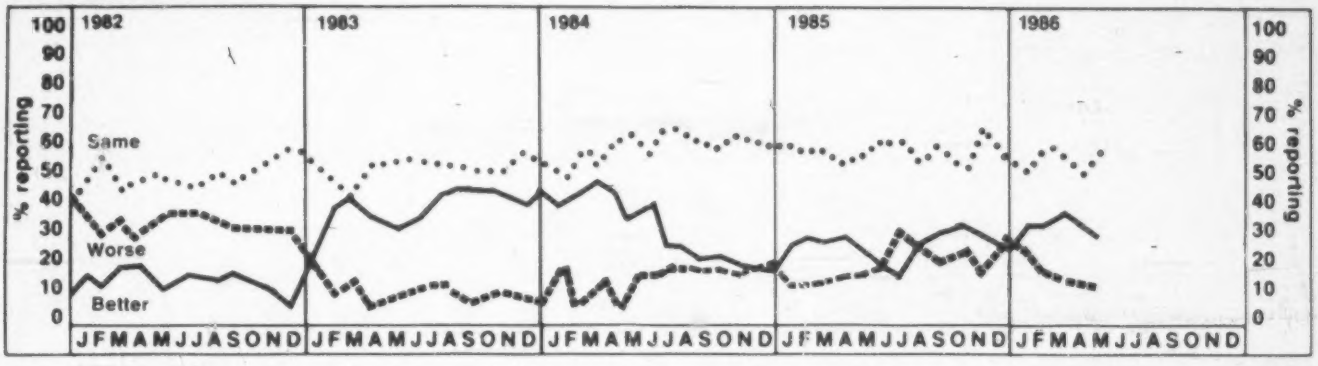
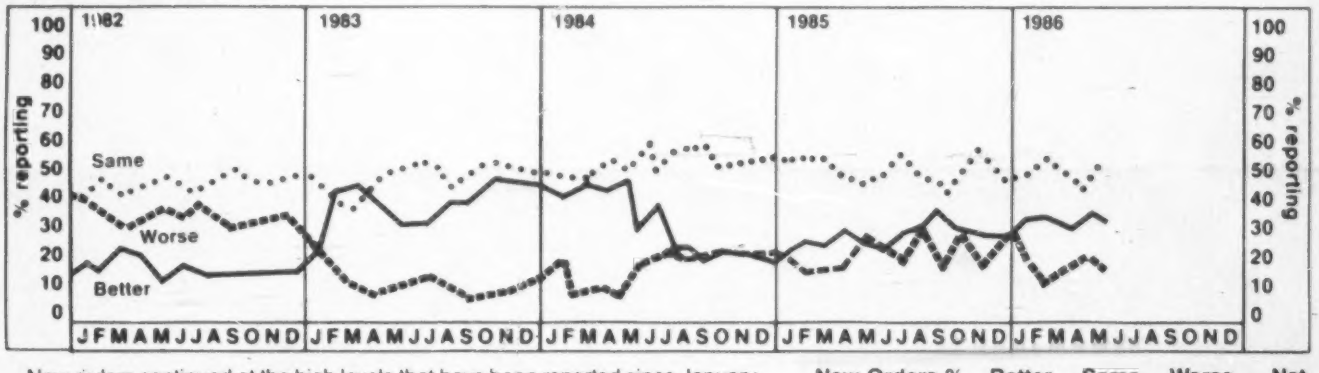
Production



Production was off slightly in May. However, if seasonal adjustments are considered, production improved from the slow pace of April.

Production %	Better	Same	Worse	Net
May	28	56	16	+12
April	32	50	18	+14
March	35	53	12	+23

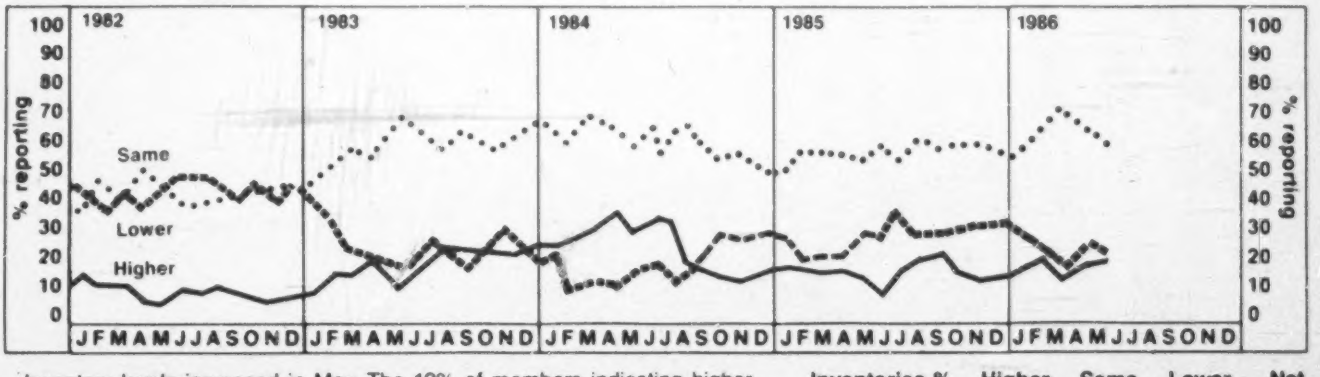
New Orders



New orders continued at the high levels that have been reported since January 1986. After considering seasonal adjustments, May is the strongest month to be reported in the past two years. This level suggests a relatively good June and could mean an overall better second quarter.

New Orders %	Better	Same	Worse	Net
May	34	51	15	+19
April	37	45	18	+19
March	33	53	14	+19

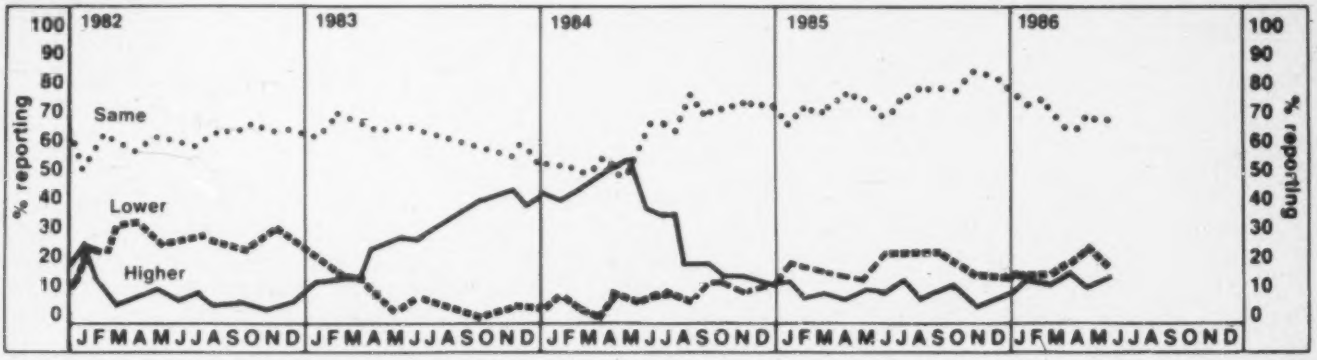
Inventories



Inventory levels increased in May. The 19% of members indicating higher inventories for the month is the highest percentage since January 1985 (also 19%).

Inventories %	Higher	Same	Lower	Net
May	19	59	22	− 3
April	14	62	24	−10
March	11	70	19	− 8

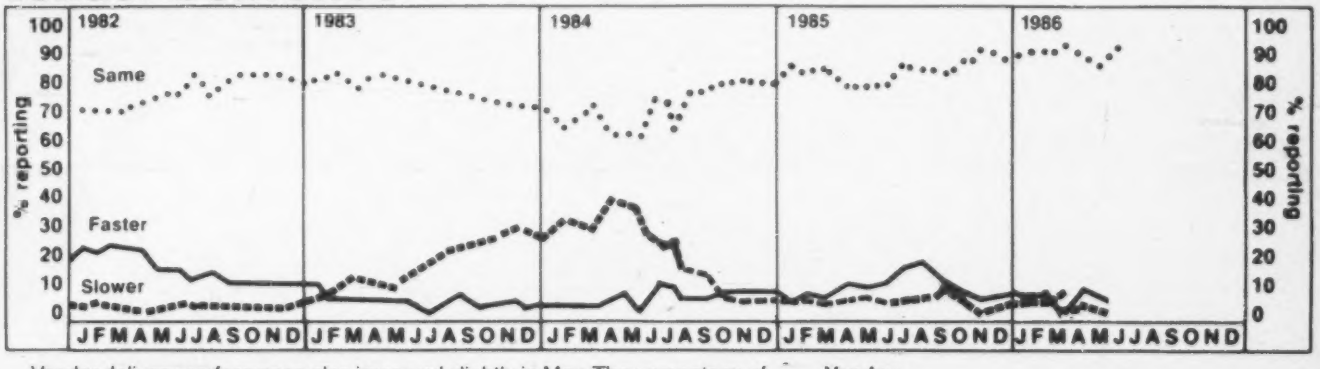
Prices



Although more members continued to say that prices are lower rather than higher, for the second time in three months, purchasers reporting higher prices reached a level not seen since September 1984 (19%). The total in May was 16% and in March it was 17%. While oil prices continue to decline, except for energy-related products, there is little indication that price reductions for by-products have flowed through to purchasers.

Prices %	Higher	Same	Lower	Net
May	16	67	17	− 1
April	11	68	21	−10
March	17	66	17	0

Vendor Deliveries



Vendor delivery performance also improved slightly in May. The percentage of purchasers reporting the speed of their vendors' deliveries as being the same or faster was 98%, compared to 95% in April. Only titanium dioxide was reported difficult to obtain.

Vendor Deliveries %	Faster	Same	Slower	Net
May	4	94	2	+ 2
April	5	88	7	− 2
March	1	92	7	− 6

Specific Commodity Changes

Only one item, corrugated shipping containers, was reported up in price in May. Energy products led the list of items reported lower in price. These included fuel oil, gasoline, and miscellaneous petroleum products, all reported as lower in price for the fourth consecutive month. Caustic soda was reported down in price for the tenth consecutive month; phenol prices were lower for the second consecutive month. Copper was reported lower in price for the first time since November 1985, and cocoa prices were also reported lower. Titanium dioxide was once again in short supply, as it was in March 1986. It is the only item to be reported short in the last sixteen months.

UP in Price: Corrugated shipping containers

DOWN in Price: Fuel oil, gasoline, miscellaneous petroleum products, phenol (used in plastic resins for housing and auto products), copper, caustic soda (used heavily in petroleum refining and paper making), and cocoa

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

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Note: The next issue of the *Report on Business* will be available July 7, 1986.

Commodity Reports

Energy

Prepared by the N.A.P.M. Energy Committee; chair, Howard T. Perley, C.P.M., International Paper Company, New York, NY.

Petroleum Products

The price "crash" that has threatened for three years has happened; supply and demand are finally determining the market price of crude oil. Instead of supporting prices by limiting its output, Saudi Arabia restored production to its OPEC ceiling. "Net-back" pricing arrangements allow refiners to maintain their margins at any production level. As a result, gasoline prices dropped sharply; No. 2 fuel oil prices should average thirty cents per gallon less than last year's prices. In many areas, residual fuel oil can now compete effectively with natural gas used by electric utilities for summer cooling and by large industrial boilers. (J.H. Kedrowski, Aluminum Company of America, Pittsburgh, PA)

Natural Gas

Intense competition and the collapse of oil prices have forced down gas prices, and they are expected to stay low for the rest of 1986. Buying gas directly from producers can reduce costs further if the pipelines involved will transport it. Low prices have reduced gas drilling to the lowest level in over thirteen years, so shortages may reoccur in several years. (Ian G. Mackenzie, C.P.M., Corning Glass Works, Corning, NY)

Coal

Although utility stockpiles are now lower and coal sales may increase, the coal market is expected to continue to soften as natural gas and fuel oil prices decline. The Black Lung Excise Tax increased 10% on April 1, but producers will have trouble passing it along in their spot prices. Spot purchases should still be favored over long-term contracts, and efforts should be made to negotiate lower transportation rates. Users should also follow current acid rain legislation and its potential impact on sulfur content restrictions. (W.T. Robertson, Jr., C.P.M., Duke Power Company, Charlotte, NC)

Electric Power

If summer demand stays relatively normal, most utilities' generating capacity should remain plentiful except on abnormally hot days. Industrial users should explore the possibility of shifting their loads to off-peak periods if their utility offers lower-cost interruptible or off-peak "economy" power. Nevertheless, the effect of the Soviet nuclear accident on power supplies should be watched carefully; added steps to improve safety may cause production cutbacks at U.S. nuclear plants.

Steel

Prepared by the N.A.P.M. Steel Group; chair, Daniel E. Krause, The Budd Company, Troy, MI.

The outcome of labor negotiations could well establish the form and vitality of the U.S.A. steel industry of the future. The involved mills (well aware of competitive demands) will be asking for wage and fringe concessions as well as major changes to work rules. The union leadership will insist on strengthened job security and profit sharing opportunities to convince their members to accept some (at least in part) of the concessions the mills want. Settlements appear to be likely between the companies and the union; the companies are financially troubled, and the union's membership is at its lowest level since 1933. If a settlement should not happen, other options still exist, such as mill closings, sales of facilities, and restructurings and reopenings under new names with new owners.

Seasonal demand and strike-hedge preparation have lengthened lead times on all products except heavy plate. This situation would be much worse if the government's Voluntary Restraint of Imports program had been more effective. Imports still total 26% of consumption, which is only slightly below 1985 levels and far above the intended 21% limit. Even without lower imports, longer lead times should persist until new labor contracts are signed.

Overall, 1986 should be a slightly better year for the steel industry than were the previous two years. The mills appear to be successful in recovering part of the 6% to 6.5% price discounts of 1985. Productivity continues to increase with the addition of new casters, improved quality, and downsizing of the workforce. The predicted decrease in demand for the second half of 1986 may not fully materialize as the full effects of lower oil prices and the weaker dollar stimulate the economy, and as lower imports are felt. Still; at best, it has been a break-even year for the domestic mills with no strong indications that the struggle for survival is yet over. The alert steel buyer will continue to search for opportunities to contain steel prices through 1986. (N.E. Candell, Caterpiller Tractor Company, Peoria, IL)

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National Association of Purchasing Management

Report On Business®

July 7, 1986
Volume 4, Number 7

Purchasing Index Declines to 49.6%

New Orders and Production Fall

Inventories Drop

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

June Report

The economy dropped sharply in June, say the nation's purchasing managers in their latest **Report on Business.** The Purchasing Managers' Index fell to 49.6% from 54.4% in May. Production levels were down dramatically; new orders were at their lowest level since December 1985. Employment and inventories also declined. Another signal of a weaker economy was the improvement in the speed of vendor deliveries. And, for the first time in nineteen months, more purchasers reported prices as being higher rather than lower. In answer to special questions, 47% of members reported receiving price decreases in other products as a result of the worldwide drop in oil prices. However, 69% said they did not anticipate future price decreases in other major products as a result of lower oil prices.

"The economy did a complete turnaround in June after registering a strong increase in May. With every indicator off, we're going to have to watch the next few months very carefully to see if this continues," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** decreased sharply to 49.6% after a significant rise to 54.4% in May. This is the largest drop since January 1984 when the index went to 60.9% from 70.4% in December 1983. The 49.6% in June is the second month in 1986 in which this leading indicator has fallen below 50%. A reading below 50% generally indicates that the economy is in a declining phase: above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

After registering a significant improvement in May, employment levels fell in June to the previously depressed levels. Members reporting lower employment in June increased to 22%, after reaching a 20-month low in May (17%).

	Higher	Same	Lower	Net Differ.
Employment %				
June	11	67	22	−11
May	13	70	17	− 4
April	14	64	22	− 8

Buying Policy

Lead times lengthened in June for all categories of purchases. The 18% who reported lead times of 90 days and over is up from 13% in May; this is the highest percentage since May and June 1985 (also 18%). In capital expenditures, lead times expanded for the second consecutive month in the six-months-and-longer category to 56%, up from 54% in May; this is the highest number reported since April 1985 (also 56%). Lead times for MRO supplies lengthened the least, with 88% reporting lead times of 30 days or less, which is down from 90% in May.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
June	18	40	24	12	6
May	21	40	26	7	6
April	16	46	22	10	6
MRO Supplies %					
June	45	43	7	4	1
May	44	46	7	3	0
April	41	46	9	1	3
Capital Expenditures %					
June	14	6	7	17	56
May	16	10	4	16	54
April	17	4	5	21	53

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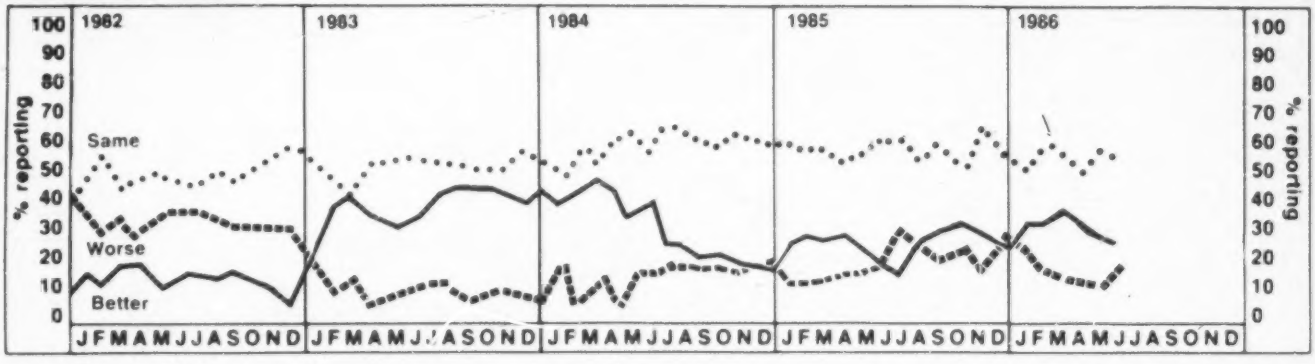
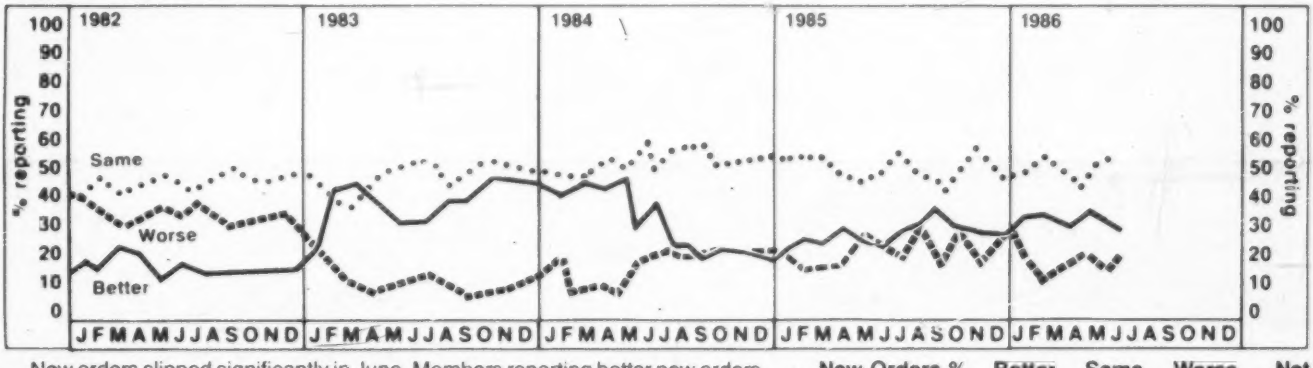
Production



Production fell in June after being strong throughout the past five months. The 25% who said their production level was better is the lowest percentage since December 1985 (21%). The 20% indicating worse production is the largest percentage reported since January 1986 (also 20%).

Production %	Better	Same	Worse	Net
June	25	55	20	+ 5
May	28	56	16	+12
April	32	50	18	+14

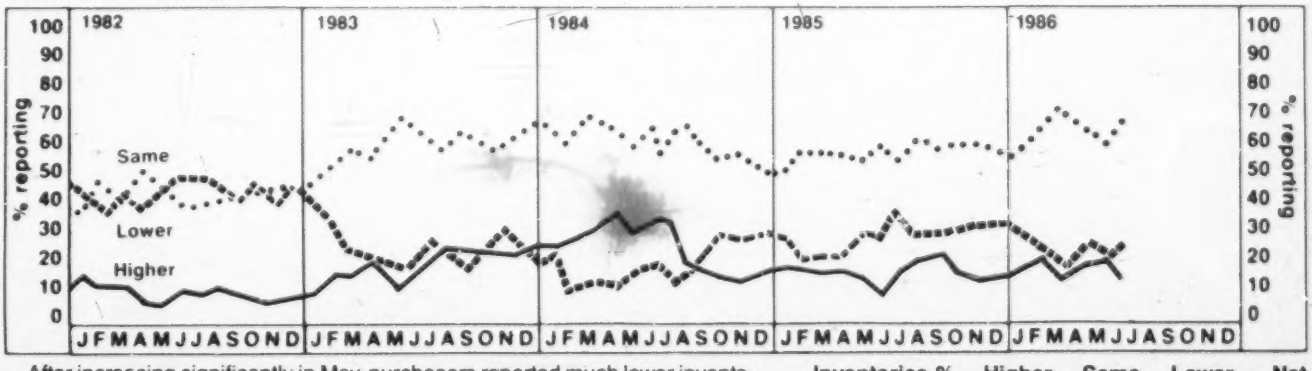
New Orders



New orders slipped significantly in June. Members reporting better new orders fell to 27% from 34% in May. This is the lowest percentage reported since November and December 1985 (26%). Those reporting their new orders as worse (19%) are the most since December 1985 (28%). This key indicator should be watched carefully in the coming months.

New Orders %	Better	Same	Worse	Net
June	27	54	19	+ 8
May	34	51	15	+19
April	37	45	18	+19

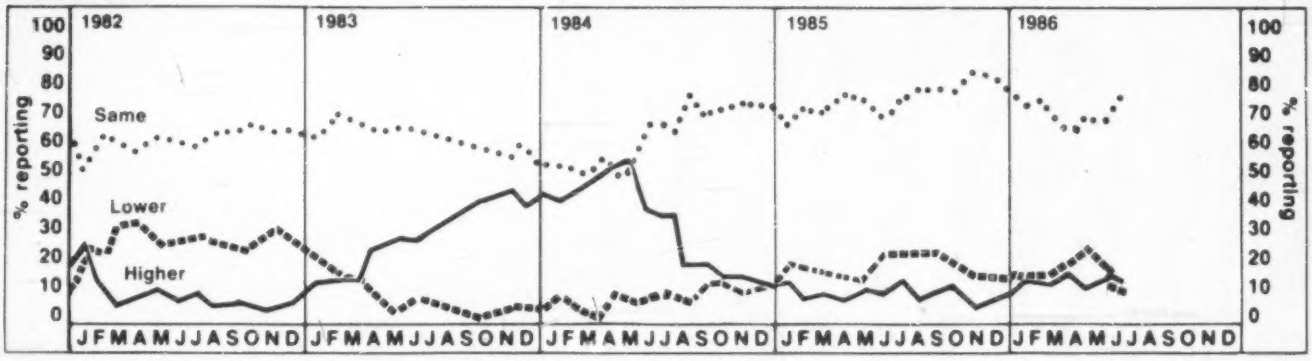
Inventories



After increasing significantly in May, purchasers reported much lower inventories in June. The 24% reporting lower inventories in June is twice as high as the 12% who indicated that their inventory levels were higher. These levels have not been seen since December 1985.

Inventories %	Higher	Same	Lower	Net
June	12	64	24	−12
May	19	59	22	− 3
April	14	62	24	−10

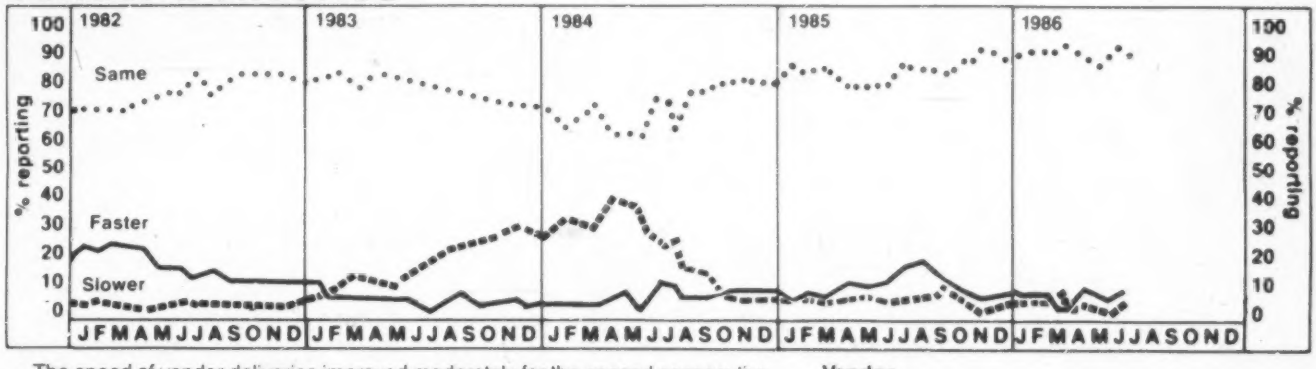
Prices



For the first time in nineteen months, more purchasers reported paying higher, rather than lower, prices. The 10% reporting lower prices is the smallest percentage since November 1984 (9%). Only 31% of members expect to see further price declines in major products, such as chemicals, plastic resins, polyvinyl chloride, and rubber, as a result of past oil price decreases.

Prices %	Higher	Same	Lower	Net
June	12	78	10	+ 2
May	16	67	17	− 1
April	11	68	21	−10

Vendor Deliveries



The speed of vendor deliveries improved moderately for the second consecutive month. This confirms the slowing of production reported in June.

Vendor Deliveries %	Faster	Same	Slower	Net
June	7	89	4	+ 3
May	4	94	2	+ 2
April	5	88	7	− 2

Specific Commodity Changes

For the third time in the last four months, titanium dioxide was reported in short supply. This is the only item to be reported in short supply in the last seventeen months. Corrugated shipping containers were reported up in price in June for the third consecutive month. Aluminum was reported higher in price for the fourth time in the past six months, after being reported lower in price from June through November 1985. Only three items were reported lower in price in June; this is the smallest number of lower-priced items to be reported since May 1985 (also three items). Fuel oil was reported lower in price for the sixth consecutive month, but no other petroleum products were reported lower. Plastic resins and products were also reported lower priced.

UP in Price: Corrugated shipping containers and aluminum

DOWN in Price: Fuel oil and plastic resins and products

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available August 4, 1986.

Commodity Reports

Wood Products

Prepared by the N.A.P.M. Wood Products Committee; chairman, Roy Carter, C.P.M., Roseburg Forest Products Company, Roseburg, OR.

As of June 4th, the forest products industry is in turmoil. Home building in all sections of the country is the most active, which guarantees a high consumption rate of industry products. Distribution and consumer inventories in the early spring appeared to be somewhat larger than normal. Contributing to the turmoil is the threat of labor difficulties developing during contract negotiations at pacific northwest manufacturing operations. Since contract negotiations are continuing and there have been no production disruptions noted, the consuming segment of the industry is reducing inventories. This has resulted in a minimal volume of business being placed with the manufacturers. As a result, prices on most plywood and lumber commodity items have fallen drastically. It is expected that buyers who are prone to react in unison will, at some point, reenter the market and reverse the downward pricing trend. Rapidly escalating prices may follow, fueled by shortages and extended order files. The consumption of forest products is deemed to be at too high a level to prevent these developments.

Non-ferrous Metals

Prepared by the N.A.P.M. Non-ferrous Metals Committee; chairman, George R. A. Milne, C.P.M., Delta Faucet Company, Indianapolis, IN.

Copper

During the first six months of 1986, copper prices and supply were very stable. Cheaper dollars and lower interest rates resulting in higher prices (which were expected by U.S. producers) were not realized. Comex values ranged between 62 to 68 cents per pound. Comex inventories dropped about 7 percent, but remain reasonably adequate.

Most labor contracts between the USW and major copper producers expire June 30, 1986. Consensus suggests that neither party can tolerate a long strike: The non-union competitive pressure and advantages of Phelps Dodge make major concessions inevitable, while producers' low margins and cash flow concerns inhibit their ability to delay settlement for long. Therefore, disruption in supply is expected to be slight. Strike-free rod mill capacity is sufficient.

Worldwide production in 1986 is expected to exceed demand slightly; this imbalance will increase further in 1987 and 1988. Increasing production through the use of the inexpensive solvent extraction-electrowinning process, while having a salutory effect on cost, should also act to mitigate against any significant rise in prices.

Copper prices should remain in the same general range as they are currently, barring major work stoppages, changes in currency values, or inflation. Except for occasional dislocations, supply should remain adequate. (Frederick C. Burke, Rea Magnet Wire Company, Fort Wayne, IN)

Zinc

Early 1986 hopes for improved zinc market conditions fizzled in the first quarter as heavy discounting forced zinc prices down to around 30 cents per pound in March. Producers reacted by revising list prices to better reflect actual selling prices and by reducing discounts. Announced production cuts aimed at correcting the long-term oversupply situation have been slow to materialize. However, steady demand, pending labor negotiations, and planned maintenance shutdowns in the second and third quarters have firmed the market. The prices have strengthened, resulting in 33 to 34 cents per pound prices in May.

The true test of zinc market stability is expected this summer when zinc demand historically slumps. If supply and demand remains relatively balanced and producers resist the temptation to discount, higher prices are imminent. Conversely, overzealous price moves and heavy discounting could reverse the upward trend. (Victoria P. Radick, National Steel Corporation, Pittsburgh, PA)

Cadmium

After the dull fourth quarter of 1985, cadmium demand was up sharply. Prices increased from the mid 70 cents per pound range to the current domestic producers' level of $1.50 per pound. The current price levels are attributed to a number of reasons. Availability of the Chinese cadmium ingot has slowed down, possibly as a result of larger sales to eastern block nations. Visual stocks and zinc production are both down. There is also an indication that zinc ore, especially that coming from newer mines, is lower in cadmium content which could contribute to possible future shortages.

Although cadmium is under assault by environmental agencies, its use has actually increased over the past five years. (Cadmium is still a very viable product to a number of industries, i.e., batteries, metal finishing, pigments, etc.) The Swedish exemption to the ban, which was to expire at the end of 1985, has been extended to the end of 1987. The domestic Notice of Intent to add cadmium to the list of air pollutants is now undergoing a review by the EPA; their full report is not expected for another two years.

Market conditions are still strong; however, some users have adapted a "wait and see" approach before purchasing, hoping that prices will soften during the historically slow summer months. This slow down should ease prices somewhat; however the price of cadmium could easily reach as much as $1.75 per pound by the end of September 1986. (Wilfred P. Brandes, Kraft Chemical Company, Melrose Park, IL)

Lead

The number of U.S lead producers continues to drop due to shrinking demand and low prices. Homestake Mining purchased Amax's portion of the Buick mine and smelter, thus reducing the number of U.S. primary producers to four. Two secondary producers (Bergsoe at 27,000 tons per year and Tonolli at 36,000 tons per year) have ceased production. Asarco announced production cut backs at their East Helena and Omaha smelters. Homestake has closed the Buick smelter until further notice, while St. Joe Lead announced their herculaneum Smelter will be closed for most of July.

To add to this unsettled picture, new EPA legislation becomes effective July 5th. This law will require secondary smelters to purchase environmental liability insurance, which currently is not available. Given these circumstances, it is not clear what the outcome will be.

With production dropping and the number of producers decreasing, the price of lead is expected to rise to the 20 to 23 cents per pound range. If the EPA legislation knocks out a significant number of secondary producers, spot shortages and even higher prices might be expected. (T.A. Parker, Exide Corporation, Horsham, PA)

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National Association of Purchasing Management

Report On Business®

August 4, 1986
Volume 4, Number 8

Purchasing Index Declines to 46.7%

New Orders and Production Weaker

Inventories Off

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

July Report

The economy weakened further in July, say the nation's purchasing managers in their latest **Report on Business.** The Purchasing Managers' Composite Index fell sharply to 46.7% from 49.6% in June. Production decreased still further to levels not seen since last summer. Much of this can be attributed to planned plant shutdowns. New orders also declined. Moreover, for the first time since December 1985, more members reported new orders as worse rather than better. Inventories fell significantly in July, reflecting sharply decreased production levels. Employment was also moderately lower. Price increases were minor as once again more purchasers reported prices lower rather than higher, following a one-month reversal of that trend. In response to a special question, 43% of members said the second quarter was better than the first compared to 26% who said it was worse. When asked to predict the third quarter, only 34% said it would be better than the second, compared to 31% who forecast it as worse.

"Fueled by seasonal plant shutdowns, the economy continued to weaken in July. For the second consecutive month, virtually all indicators were off, a disturbing trend if it doesn't end soon," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** declined sharply to 46.7% after a significant drop to 49.6% in June from 54.4% the month before. This leading indicator has now registered below 50% for the third time in 1986. The 46.7% total in July is the lowest since January 1983 (46.1%), when the current recovery was just beginning. A reading below 50% generally indicates that the economy is in a declining phase: above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment continued to drift lower in July as 23% of the members reported lower employment; this is up from 22% in June. Only 10% reported higher employment, down from 11% in June.

Employment %	Higher	Same	Lower	Net Differ.
July	10	67	23	−13
June	11	67	22	−11
May	13	70	17	− 4

Buying Policy

In July, lead times for production materials remained virtually unchanged as 58% of members reported they could obtain materials within 30 days, 83% within 60 days. In the important capital expenditures category, lead times shortened as 51% reported lead times of 6 months or longer; this is down from 56% in May and June. Lead times for maintenance repair and operating (MRO) supplies lengthened slightly as 42% reported buying hand-to-mouth; this is down from 45% in June.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
July	18	40	25	10	7
June	18	40	24	12	6
May	21	40	26	7	6
MRO Supplies %					
July	42	46	6	5	1
June	45	43	7	4	1
May	44	46	7	3	0
Capital Expenditures %					
July	12	8	7	22	51
June	14	6	7	17	56
May	16	10	4	16	54

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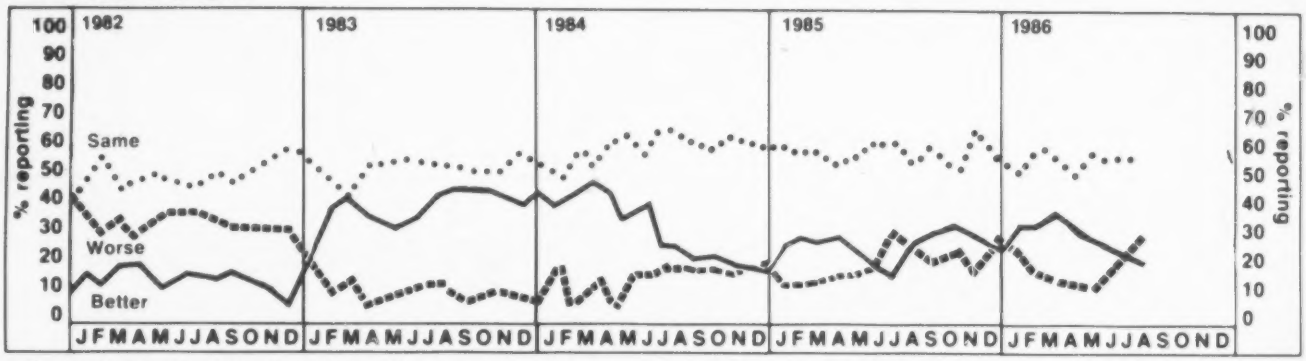
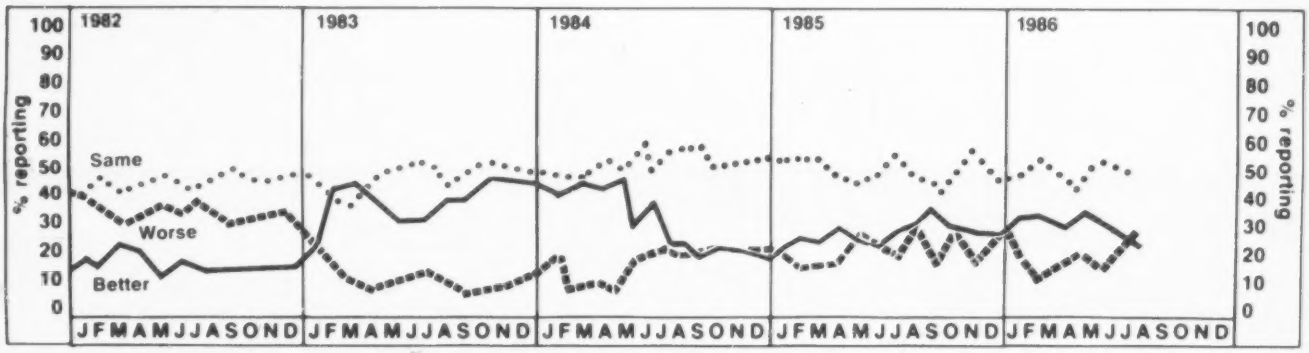
Production



Production declined significantly in July—a seasonal occurrence resulting from nearly half of the members' plants shutting down during the summer for planned maintenance and/or employee vacations. The 49% of members reporting shutdowns this summer is higher than last year (46%) and the most since 1982. Of those shutting down plants, 69% indicated the closing would occur in July.

Production %	Better	Same	Worse	Net
July	17	55	28	−11
June	25	55	20	+ 5
May	28	56	16	+12

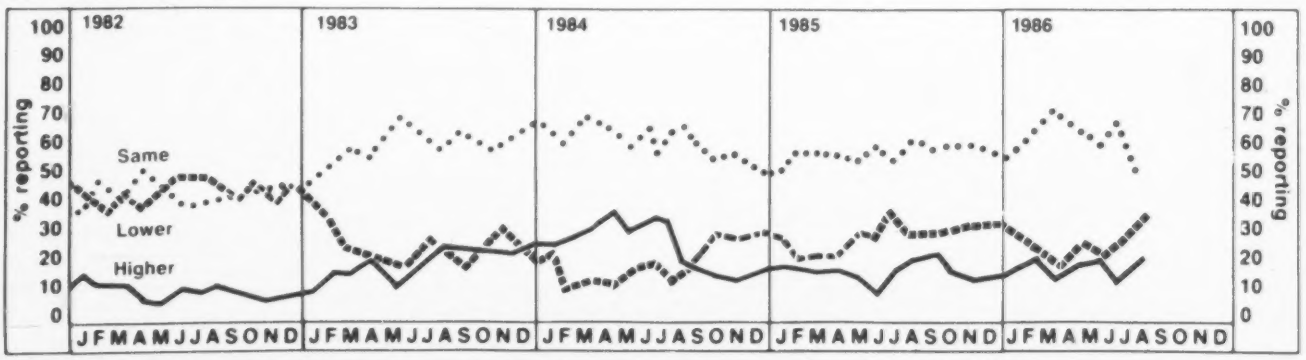
New Orders



New orders declined in July. More members reported new orders as worse (25%) rather than bett (23%); this has not occurred since December 1985. The 23% reporting new orders as better is the lowest since July 1985 (22%). This key indicator should be watched closely in the next few months.

New Orders %	Better	Same	Worse	Net
July	23	52	25	− 2
June	27	54	19	+ 8
May	34	51	15	+19

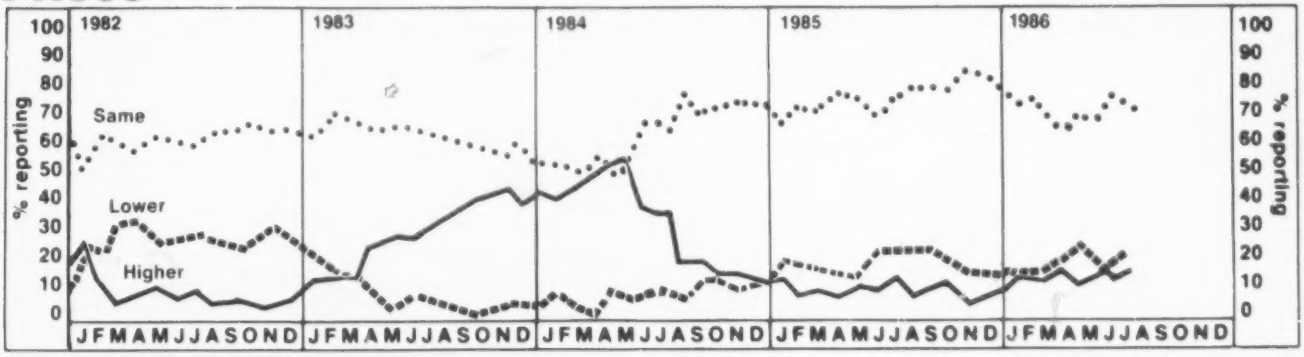
Inventories



In July, net inventory levels declined once again. Even though the 17% who reported higher inventories is up five points from June, the 33% who said their inventory is lower, is up nine points. This is the most to report lower inventories since January 1983 (40%) when the current economic recovery was beginning.

Inventories %	Higher	Same	Lower	Net
July	17	50	33	−16
June	12	64	24	−12
May	19	59	22	− 3

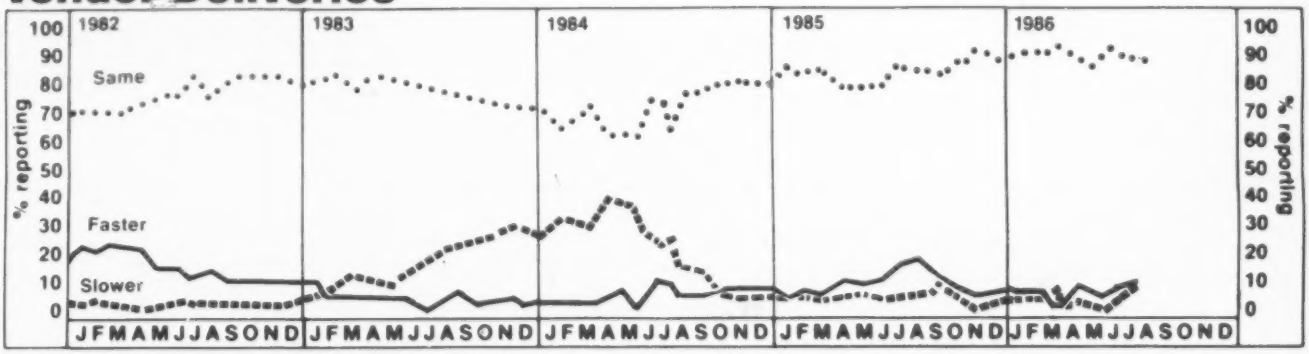
Prices



In June, for the first time in 19 months, more purchasers reported paying higher rather than lower prices. However, in July, more members once again reported paying lower compared to higher prices. In a special question which asked members to compare their actual net price increases for the third quarter to their budgeted expectations, twice as many said they were lower (28%).

Prices %	Higher	Same	Lower	Net
July	13	72	15	− 2
June	12	78	10	+ 2
May	16	67	17	− 1

Vendor Deliveries



The speed of vendor deliveries improved slightly in July for the second consecutive month. This is an indication that vendors are not having problems meeting purchasers' scheduled requirements.

Vendor Deliveries %	Faster	Same	Slower	Net
July	6	88	6	0
June	7	89	4	+ 3
May	4	94	2	+ 2

Specific Commodity Changes

Titanium dioxide was reported in short supply for the fourth time in 5 months. However, it remains the only item in short supply in the last 18 months. For the fourth consecutive month, corrugated shipping containers were reported higher in price. Aluminum was also reported as being up in price for the fifth time in the last 7 months. Printing paper was also reported higher in price. Ten items were reported lower in price in July, many of which were petroleum related. Fuel oil prices were reported lower for the seventh consecutive month. Other petroleum related products reported lower in price were diesel fuel, gasoline, natural gas, benzene, methanol, bearings, copper, wheat, and cocoa.

UP in Price: Corrugated shipping containers, paper, and aluminum

DOWN in Price: Fuel oil, diesel fuel, gasoline, natural gas, benzene (used as a chemical solvent and in motor fuels), methanol (work horse chemical), bearings, copper, wheat, and cocoa.

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

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Note: The next issue of the *Report on Business* will be available Sept. 2, 1986.

Commodity Reports

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dirkse, C.P.M., Johnson Wax, Racine, WI.

Overall, the packaging and containers market continues to enjoy adequate supply and stable prices. One exception is glass containers, whereby the supply is experiencing some tightness and prices are increasing. After several years of surplus capacity and falling prices, both folding cartons and corrugated are showing some strength.

Metal Cans

The supply for metals cans continues to be adequate to surplus. Several steel companies have settled their labor contracts, and the can companies have increased their steel inventories to cover any possible strikes. A few members report price increases, but prices are generally stable.

Fibre Cans

The conversion to plastic leaves the fibre can industry with surplus capacity; as a result, prices are weak.

Glass

Previous plant shutdowns continue to limit the supply of glass containers. Some members are experiencing long leadtimes. Price increases are also being reported.

Molded Plastics

Most members report adequate supply and stable prices for molded plastics. However, we have members reporting both price increases and decreases. It appears that price decreases in crude oil and natural gas have not been fully passed along to plastic buyers.

Films

Not much is new in the film area — adequate to surplus supply and stable prices still remain. Some price increases are being attempted, but with little success.

Laminated Stock

The laminated stock industry has been experiencing adequate supply and stable prices. However, with the aluminum producers on strike, leadtimes are extending and some price increases are being put through.

Metal Drums

This continues to be a very stable market. There is plenty of capacity and not much movement in prices.

Fibre Drums

This is another quiet market. There are relatively few suppliers, plenty of capacity, and stable prices.

Folding Cartons

Supply continues to be adequate to surplus for folding cartons. However, after several years of weak prices, price increases are finally sticking, particularly on SBS and SUS.

Corrugated

Linerboard mills are putting out record tonnage. Exports have increased with the weaker dollar and strengthening foreign economies. At the time of this writing, linerboard was $290.00 per ton; paper companies are trying to increase this. Availability from converters is still good on most items. Many attempts are being made to increase prices, with some success.

Bags

Bag availability is still good, but some members are reporting price increases.

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

Pulp

The leading species of this commodity is Northern Softwood. This particular grade has increased by $120.00 per metric ton in 1986; including a price increase effective July 1. By fall, spring and summer down-time producers may get back into full production, driving pulp inventories up once again. May operating rates increased by 2% over April, shipments were down by 93,000 tons, and production was up by 62,000 tons, indicating inventories started increasing in May. Pulp inventories declined by 114,000 tons in the first quarter, although exports increased by 27.2%.

Newsprint

Newsprint remains readily available with excess capacity by both U.S. and foreign producers. More capacity is scheduled to come on-line in fall 1987. Deliveries are readily available. List prices have remained constant for some time. Discounts are prevalent from list prices and have been increasing in recent months in anticipation of the normal reduced demand during the summer months. No supply problems are anticipated. Mills are trying for an approximate 9% price hike for October (yet it's too early to judge its success).

Coated Papers

The three- to six-month projection is that coated papers will remain plentiful. Additional capacity is due the first quarter of 1987. Deliveries are running two to four weeks. Inventories are remaining constant. Prices are holding steady, mostly at 1984 levels. Some discounting is prevalent. No major price changes are expected for the next six months, although, mills are hoping that prices will firm around year-end.

Uncoated Free Sheets

From feast to famine! The demand for uncoated free sheet has been very strong. Large buyers are being controlled by loosely monitored "allocations" or "reservations." Production through April is up 7.6%. Form grade shipments in the first quarter were up 15.5% and carbonless base stock was up 17.3% over last year. Bond paper shipments up 9.9% and offset paper shipments up 9.3% compared to last year. Imports through March are up 54%. Imports now account for 4.6% of the total consumption of uncoated white free sheets in the U.S. Most grades in this commodity have just received notification of either their second or third price increase for this year. In general, price levels are only approaching those of 1984.

Deliveries range from two weeks to two months (two-week deliveries are essentially on a reservation system). One west coast mill, not allocating tonnage, reports backlogs extending into September (as of June 20). The frustrating aspect of this market is that no one can specify any one area attributing to this demand. Some speculation reveals production is going into inventory building, both by mills, distributors, and convertors, who are all hedging against price increases. The tablet market has been very strong but should moderate as the back to school market demand is met. (The new machine in Port Hudson, LA, is running and virtually already absorbed.)

Two more increases in capacity are scheduled yet this year at Pensacola, FL, and Selma, AL. There should be more than enough capacity to supply the uncoated free sheet market for the remainder of 1986 well into 1987. The main concern of buyers is the lack of announced additional capacities after this year. This commodity requires constant surveillance.

Bleached Bristols

Bleached bristols are experiencing the first signs of some tightening. Backlogs are increasing rapidly. Expectations are that supply could become even tighter. Deliveries are ranging from three to six weeks. Inventories are mixed — some report decreases, some a holding level, and some increases. There appears to be the start of an upward movement in prices. The projection for the next six months is that prices will increase. This commodity has surged in production by 9.3% in the first four months of 1986 compared to the same period of 1985.

Paperboard

Paperboard demand has tightened in recent months. Most of the added production of this grade appears to be exported. Unbleached Kraft linerboard produced for export increased 27.6% for the first four months of 1986, which has increased lead times to as much as eight weeks. Capacity should be adequate to cover demand even at the increased levels. Deliveries are expected to remain extended, and minimal new capacity is expected. Inventory levels are increasing slightly. Prices have firmed recently and increases are expected in the near future.

A6910-1

National Association of Purchasing Management

Report On Business®

September 2, 1986
Volume 4, Number 9

Purchasing Index Rebounds to 52.6%

New Orders and Production Expand

Prices Still Lower

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

August Report

What's happening with the economy? In August, it strengthened considerably say the nation's purchasing managers in their latest **Report on Business.** The Purchasing Managers' Composite Index rose to 52.6%, after falling to 46.7% in July from 49.6% in June. Production rebounded in August from the low levels of July as many plants returned from planned maintenance and vacation shutdowns. New orders also improved substantially. Inventories continued to decline but at a lower rate than the past two months. Employment remained at about the same depressed levels as June and July. Price increases were moderate in August, the twentieth month in the last twenty-one in which purchasers reported paying the same or lower prices.

"The disturbing downtrend in the three of the last four months reversed direction again in August as the economy returned to an expanding phase, however, there has never been a period when the economy has seemed so erratic," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** rose sharply to 52.6% from 46.7% in July and 49.6% in June. August is the fifth month in 1986 in which this leading indicator has registered over 50%. A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment declined again in August as more than twice as many members reported lower employment (23%) compared to higher (11%). This is the twenty-third consecutive month that more members have reported lower rather than higher employment.

Employment %	Higher	Same	Lower	Net Differ.
August	11	66	23	−12
July	10	67	23	−13
June	11	67	22	−11

Buying Policy

In August, lead times for production materials expanded only slightly, as 60% of members reported lead times of 30 days or less compared to 58% in June and July. In the capital expenditure category, 58% reported lead times of six months or longer, up from 51% in July and the most since March 1985 (also 58%). Generally, increased lead times signal increased buying activity. Lead times for maintenance, repair and operating (MRO) supplies remained essentially unchanged except for a slight increase in those reporting buying hand-to-mouth, to 45% in August from 42% in July.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
August	15	45	24	11	5
July	18	40	25	10	7
June	18	40	24	12	6
MRO Supplies %					
August	45	42	6	7	0
July	42	46	6	5	1
June	45	43	7	4	1
Capital Expenditures %					
August	10	4	10	18	58
July	12	8	7	22	51
June	14	6	7	17	56

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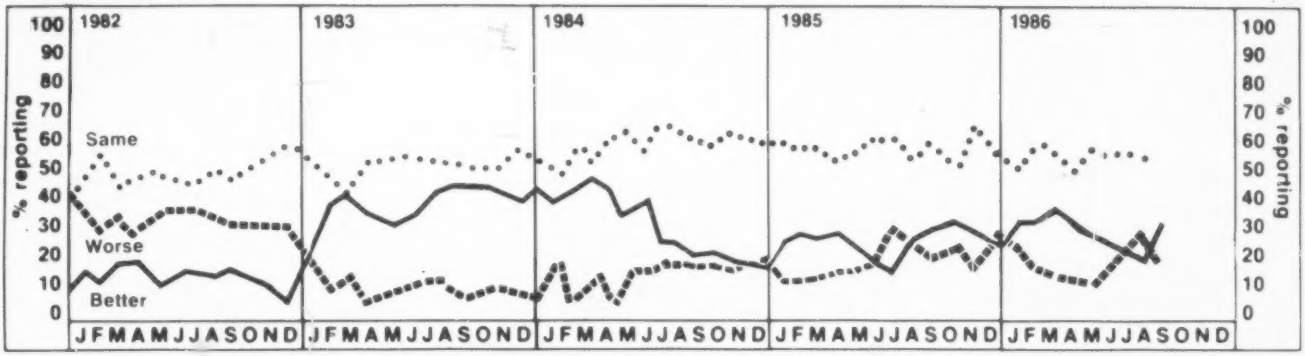
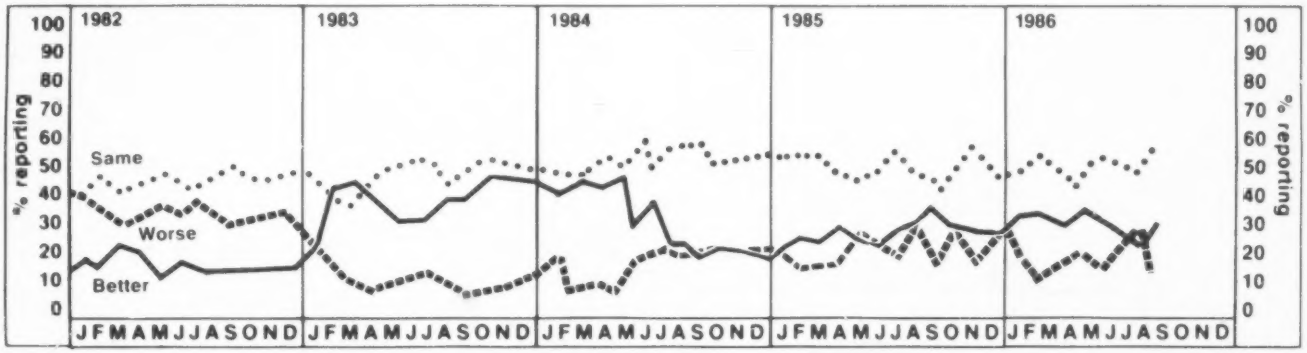
Production



Production improved substantially in August from July's low levels. In a large part, this can be attributed to the reopening of many plants that were closed in July for maintenance and/or employee vacations. Of the 49% of members reporting a summer shutdown, 69% indicated it would occur in July and 22% said August.

Production %	Better	Same	Worse	Net
August	27	54	19	+ 8
July	17	55	28	−11
June	25	55	20	+ 5

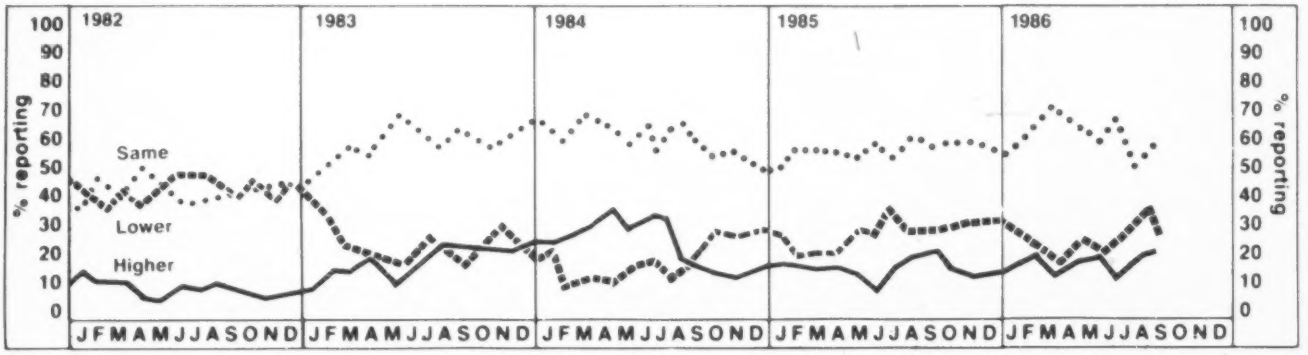
New Orders



New orders expanded significantly in August after declining in July. Almost twice as many members reported better new orders (28%) than worse (15%). This strong increase in new orders suggests a healthy production level for the next thirty to sixy days and is a dramatic turnaround from last month.

New Orders %	Better	Same	Worse	Net
August	28	57	15	+13
July	23	52	25	− 2
June	27	54	19	+ 8

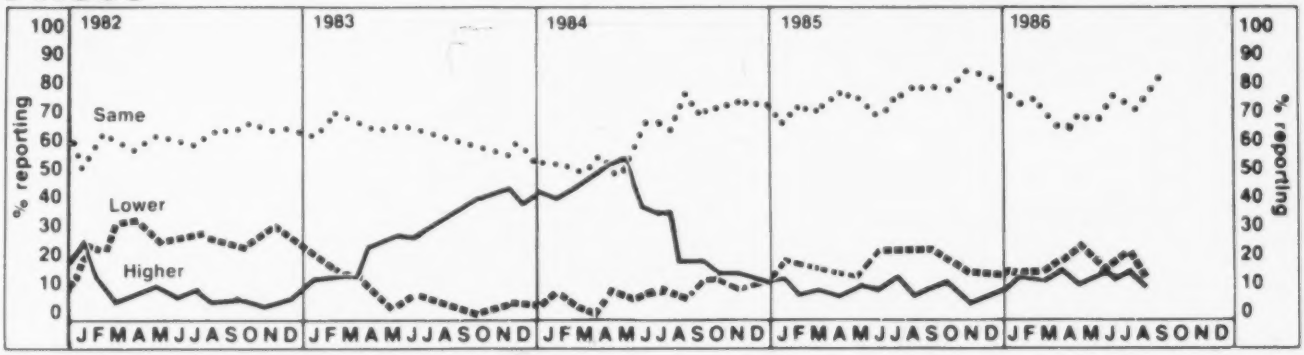
Inventories



Net inventory levels continued to decline in August. For the 24th consecutive month more members have reported lower inventories compared to higher. However, the rate of decline is lower than in the past two months.

Inventories %	Higher	Same	Lower	Net
August	18	58	24	− 6
July	17	50	33	−16
June	12	64	24	−12

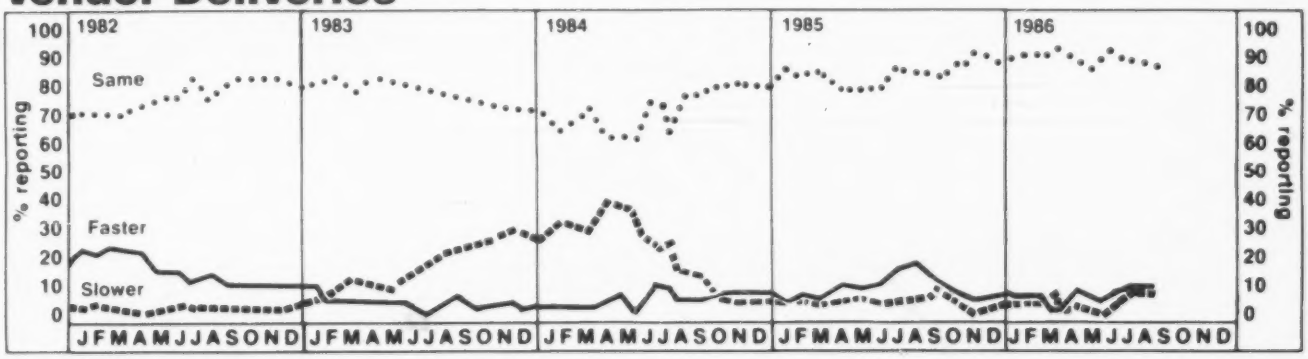
Prices



More members reported lower prices (10%) in August than higher (9%). Out of the past 21 months, only in June 1986 did more purchasers indicate paying higher rather than lower prices.

Prices %	Higher	Same	Lower	Net
August	9	81	10	– 1
July	13	72	15	– 2
June	12	78	10	+ 2

Vendor Deliveries



The speed of vendor deliveries improved slightly in August. Generally this is an indication that vendors are not constrained by production capacity limitations and are able to meet most shipping requirements of purchasers.

Vendor Deliveries %	Faster	Same	Slower	Net
August	7	87	6	+ 1
July	6	88	6	0
June	7	89	4	+ 3

Specific Commodity Changes

For the fifth time in six months, titanium dioxide was reported in short supply. However, this is the only item reported in short supply in the past 19 months. Many paper and paper-related items were reported higher in price in August. Corrugated shipping cartons were reported up in price for the fifth consecutive month and printing paper for the second consecutive month. Kraft linerboard and folding cartons were newcomers to the list of higher-priced commodities. Price decreases continue to be reported for fuel oil (the eighth consecutive month), diesel fuel, gasoline, and methanol (all three for the second consecutive month). Cotton fabric and vegetable oils were two new additions to the list of items reported lower in price in August.

UP in Price: Corrugated shipping containers, kraft linerboard (used in making corrugated shipping containers), folding cartons, printing paper

DOWN in Price: Fuel oil, diesel fuel, gasoline, methanol (a work horse chemical), caustic soda (used heavily in petroleum refining and paper making), cotton fabric, and vegetable oils (used in prepared foods)

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Oct. 6, 1986.

Commodity Reports

Energy

Prepared by the N.A.P.M. Energy Committee; chairman, Howard T. Perley, C.P.M., International Paper Company, New York, NY.

Crude Oil, Distillates, and Gasoline

OPEC will continue its attempts to establish and maintain crude oil production ceilings. Market expectations of its success will result in wide pricing swings. Therefore, volatile crude oil prices should be expected over the next few years with spot prices ranging from $6.00 to $18.00 per barrel. It appears that OPEC may agree on a production ceiling which, if observed, will push crude oil prices toward the high end of the range.

Gasoline and No. 2 fuel oil prices are expected to closely follow crude oil price swings, but they will stay well below 1985 levels.

During the next six months, high sulfur residual fuel oil prices should range from 70% to 80% of spot crude oil prices.

Natural Gas

Prices charged by local utilities have not dropped as much as crude oil prices because of the interstate pipeline suppliers' long-term price commitments to gas producers. Nevertheless, utilities' gas prices will continue to decline over the next year or two.

However, spot market prices of gas purchased by end-users directly from producers have already dropped sharply, resulting in big savings if pipeline transportation can be obtained. Some interstate pipelines have agreed to transport, but others have not. Some local gas utilities are also resisting, but several state utility commissions have made transportation mandatory.

Electric Power

Although many southern utilities have set new records for summer demand during abnormally hot days, decreased fuel costs and lower inflation rates are resulting in fewer, smaller-rate increases and some decreases.

Notice

Several vacancies currently exist on N.A.P.M.'s Energy Committee. Members interested in serving, should contact Howard T. Perley, C.P.M., N.A.P.M. Energy Committee chair, International Paper Company, New York, NY (212) 536-5670.

Steel

Prepared by the N.A.P.M. Steel Committee; P.C. Conroy, corporate director of purchasing & transportation, Valmont Industries, Valley, NE.

There is some good news for the steel business, but a lot of bad news! For the sixth consecutive month, the majority of the steel buyers intend to maintain their current levels. There are still 45% who will try to reduce inventory levels in the next six months. Couple this information about inventory levels with: 1) the 81% (exceptionally high) of buyers who see their incoming orders below their most efficient levels of operation; 2) the 72% who see no change in their order backlog over the next three months; and 3) you have a pretty stale demand for steel. These buyers (88%) expect economic activity to remain the same or go down in the next six months.

There is some good news. Since May is the third month since the inception of the steel quotas, the penetration of finished steel products has been at or below the program's 20% goal. Overall, imports should end up being reduced as much as three million tons for 1986, versus the 1985 level. Unfortunately, the bad news is that steel consumption in the U.S. is projected to be down 7% (or roughly seven million tons) from 1985's levels, and 1987 could see as much as an 8% further reduction in demand (down to 80 million tons). This leaves the U.S. steel industry facing continued financial pressure.

Improvement in demand for the second half of 1986 is nowhere in sight, therefore, prices are not likely to increase, at least through the balance of 1986. The industry is now adjusting their forecast for the last half of 1986, and shipments are not expected to exceed 32 million tons. The 1987 projections for the domestic mills are not dropping into the low 60 million ton range.

With the recent LTV bankruptcy bringing the market share held by "reconstituted mills" to 24%, the trend toward reorganizations, mergers, and resurrection of bankrupt mills will continue, keeping the domestic steel companies and their pricing strategies in turmoil.

A6910-1

National Association of Purchasing Management

Report On Business®
October 6, 1986
Volume 4, Number 10

Purchasing Index Rises to 53.2%

New Orders and Production Increases

Price Increases Up Sharply

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

October Report

The economy expanded slightly in September, say the nation's purchasing managers in their latest **Report on Business.** Production rose from the already high level of August. This had been anticipated because of the significant increase in new orders last month. New orders were also higher in September, suggesting continued healthy production over the next thirty to sixty days. Inventories declined again but the rate of decline was lower for the third consecutive month. Employment remained at its previously depressed level. Prices increased rather sharply in September to a level not seen since August 1984. Relative to prices, 67% of members responding to a special question said they purchased a significant amount of imports. Of those importing, 56% had not received a price increase in the last three months while 44% had. Of the 44% paying higher import prices, 39% said they plan on switching to domestic suppliers.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "In September, the economy continued the expansion registered in August, which reversed the downtrend in three of the previous four months. The high rate of new orders in September should mean healthy production levels in October and November and a continuation of the expansion."

The **Purchasing Managers' Composite Index** rose to 53.2%, up slightly from 52.6% in August. This is the second consecutive month this leading indicator has registered over 50% and the sixth time in 1986. A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The depressed level of employment changed little in September. Once again, more than twice as many members reported lower employment (27%) than higher (13%), this is the twenty-fourth consecutive month that more members have reported employment as lower rather than higher.

Employment %	Higher	Same	Lower	Net Differ.
September	13	60	27	−14
August	11	66	23	−12
July	10	67	23	−13

Buying Policy

In September, lead times for capital expenditures increased for the second consecutive month as 60% of members reported lead times of six months or longer, up from 58% in August. More importantly, this is the most since September 1984 (61%). Increased lead times generally reflect increased buying activity. In a special question regarding the impact of the enactment of the proposed tax reform bill, 54% of members indicated it would not affect their 1987 capital investment plans; 27% said it would affect them negatively; 2% positively; and 16% were uncertain. Lead times for production materials expanded slightly as 20% of members reported lead times of 90 days or longer compared to 16% in August. Lead times for maintenance, repair, and operating (MRO) supplies remained virtually unchanged in September.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
September	18	39	23	14	6
August	15	45	24	11	5
July	18	40	25	10	7
MRO Supplies %					
September	44	43	6	7	0
August	45	42	6	7	0
July	42	46	6	5	1
Capital Expenditures %					
September	16	3	7	14	60
August	10	4	10	18	58
July	12	8	7	22	51

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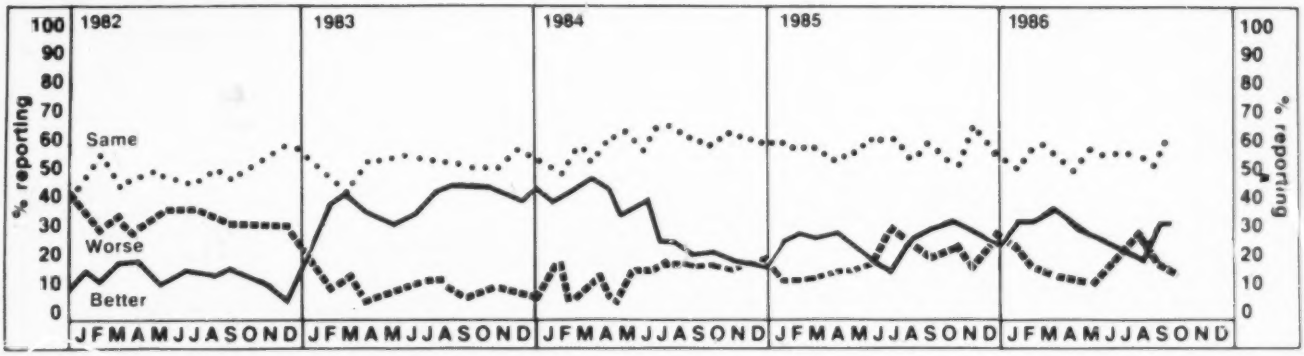
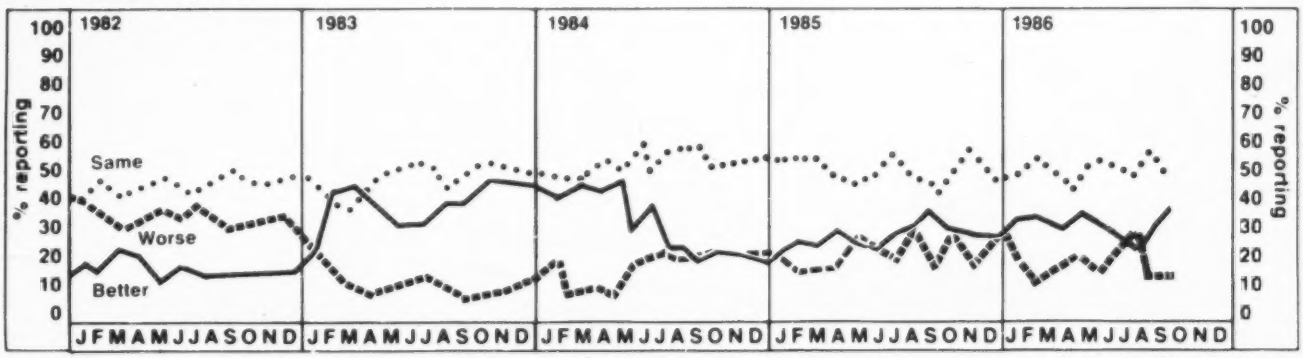
Production



Production continued to expand in September at an even higher rate than August. The 13% of members reporting production as worse is the lowest since March 1986 (12%). Since new orders also expanded in September, it is likely that production will remain strong into November.

Production %	Better	Same	Worse	Net
September	27	60	13	+14
August	27	54	19	+ 8
July	17	55	28	−11

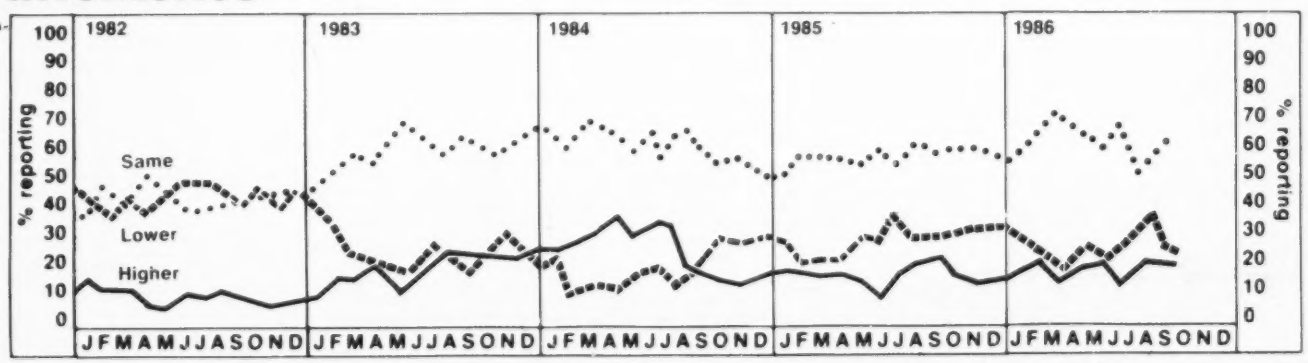
New Orders



For the second consecutive month, new orders expanded in September. In September, the net difference between those reporting better new orders (35%) and those reporting worse (15%) was a plus 20, the highest difference since February 1986 (+20).

New Orders %	Better	Same	Worse	Net
September	35	50	15	+20
August	28	57	15	+13
July	23	52	25	− 2

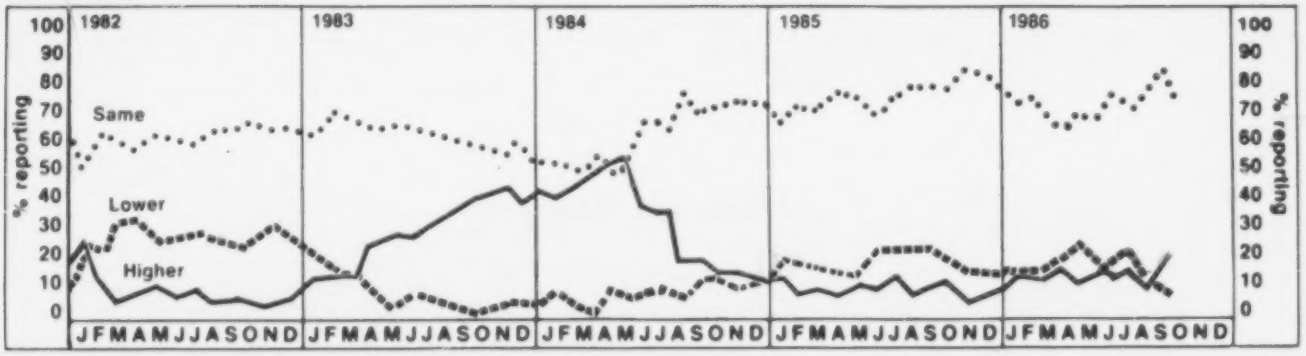
Inventories



Inventories declined again in September, marking the twenty-fifth consecutive month that more members have reported lower inventories compared to higher. However, the rate of decline is lower for the third consecutive month.

Inventories %	Higher	Same	Lower	Net
September	18	61	21	− 3
August	18	58	24	− 6
July	17	50	33	−16

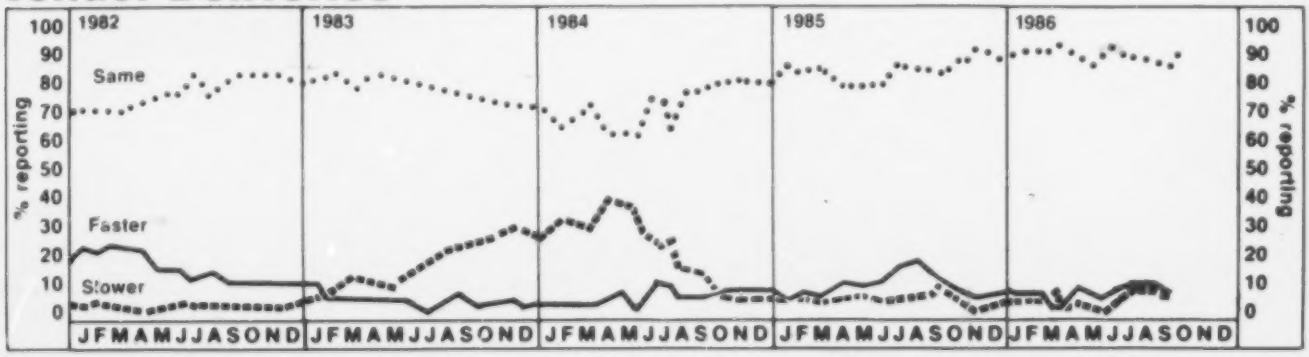
Prices



The 19% reporting higher prices in September is more than three times those reporting lower prices (6%) — the most since September 1984. This suggests the economy may be strong enough to support price increases. Of purchasers who import heavily, 44% reported receiving price increases over the past three months. Fuel oil prices were also reported higher, reversing an eight-month downtrend.

Prices %	Higher	Same	Lower	Net
September	19	75	6	+13
August	9	81	10	− 1
July	13	72	15	− 2

Vendor Deliveries



The speed of vendor deliveries was virtually unchanged in September. This would indicate that although production is up, vendors are not finding it difficult to meet purchasers' shipping requirements.

Vendor Deliveries %	Faster	Same	Slower	Net
September	5	90	5	0
August	7	87	6	+ 1
July	6	88	6	0

Specific Commodity Changes

September marks the sixth time in seven months that titanium dioxide was reported in short supply. Nevertheless, it is the only item reported in short supply in the last twenty months. Corrugated shipping containers were reported higher in price for the sixth consecutive month and folding cartons for the second consecutive month. Fuel oil prices were reported higher in price in September after eight consecutive months of reported price decreases. Steel was reported higher in price in September, the first time since being reported higher in February, March, and April of 1986. Only two items were reported as lower prices; methanol for the third consecutive month and petroleum products.

UP in Price: Corrugated shipping containers, folding cartons, caustic soda (used heavily in paper making and petroleum refining), steel, and fuel oil

DOWN in Price: Methanol (a work horse chemical) and petroleum products

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

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Note: The next issue of the *Report on Business* will be available Nov. 3, 1986.

Commodity Reports

Textiles

Prepared by the N.A.P.M. Textile Committee; chairman, Harold Scott, C.P.M., K-Products, Inc., Orange City, IO. Contributors to this report include: Larry N. Parkes, C.P.M., Champion Products, Inc., Rochester, NY; Stanley Albright, C. H. Masland & Sons, Carlisle, PA; and Richard Blumstein, Steelcase, Inc., Grand Rapids, MI.

Cotton, Polyester, and Greige Goods

A 0% to 3% increase for cotton, polyester, and greige goods is being anticipated for 1987. Some price reductions are expected for yarn items due to the farm subsidy program. Generally, prices are off 10¢ to 15¢ per pound depending on the start point. New prices appear to compare closely with the fourth quarter of 1985. Coupled with the cotton price increase, polyester and acrylic staple should stay the same or go down to protect against the loss of market share to cotton; this may also be controlled by supplier manipulation which could hold the price. In the fabric area, nylon pricing increased 7% in June. This increase will show effects during the first quarter of 1987. Cotton woven goods should hold or see reductions in line with the farm subsidy program. Nylon taffeta should be up 5% to 8% due to the supply and demand factors, as well as, the dyers not having increased their prices since 1984. There is no anticipated polyester filament increase at this time. Continued pressure on basic commodity items will be due to the anticipation of 1987 being a strong fleece, terry, and cotton sweater year. Material costs will be the driving force for supply and demand. In addition, these areas will be tempered, to a certain extent, by limitations of available commission dyeing and finishing capacities. The fact that the Presidential veto was not overridden should play an important role in any downward business adjustment domestically for those retail buyers that have hedged pending the outcome of this legislation.

Carpet

The supply of raw materials is adequate except for continued problems with jute. Material prices are mostly steady except for carpet wools, which are expecting changes due to the currency exchange variations.

Specialty Fabrics

With the pricing of cotton and manmade fibers declining and the current under use of production, specialty fabrics and converting should continue to see short lead times with slightly falling prices.

U.S. wool consumption is up due to apparel usage, therefore, if wool is used in blends, it will require accurate forecasting. Both the woolen and worsted systems are experiencing these demands, predictions of usage will have to be fairly precise to be assured of a steady supply and price.

Non-Ferrous Metals

Prepared by the Non-Ferrous Metals Committee, chairman, George R. A. Milne, C.P.M., Delta Faucet Corporation, Indianapolis, IN

Magnesium

Indications are that magnesium prices will be dropping by approximately 5%. This is caused by a supply exceeding demand. The long-term outlook is that the pricing will drop even more over the next ten years. There is increased production capacity in North America with a new facility being built in Canada next year. At the same time, there is a projected decline in the use of magnesium commencing in 1990 — except for the automotive industry. Fifty percent of all magnesium is used in the alloying of aluminum metal. The recycling of aluminum has already caused a decrease in the use of magnesium. This trend will continue in the U.S., however, the use of aluminum cans is in its infancy in Europe and Asia so demand will increase there.

The use of magnesium by steel mills will decline from 1990 to 1995 as the mills switch to less expensive materials. The automotive industry will, however, continue to increase its use of magnesium as it has done for the past seven to eight quarters. Tremendous efforts have been made to solve the corrosion problem inherent in magnesium, but few improvements have been made. This still remains a major obstacle to the use of magnesium in the aerospace industry. (Sharon Sinke, C.P.M., Frost, Inc., Grand Rapids, MI.)

Nickel

Plating grade nickel prices remain weak despite repeated industry efforts to bolster them. Prices range from $2.19 to $2.24 per pound, and current range is now $2.20. Current prices are nearly a mirror image of those offered in 1976.

The nickel industry is experiencing the following disruptions throughout the U.S. Sinco has curtailed production for ten weeks. The Phillipines producer source has shut down due to inventories, while the Greek Government is having thoughts of production curtailment. Russia has been dumping nickel in Europe to further compound the excess inventory situation. Overall, inventories remain "moderate" even with this "disruption" in the marketplace.

Consumption of nickel in the stainless steel industry is affected by the disappearance of producers. Although nickel producers continue to promote the scenario of tightening supplies and rising prices, little change is anticipated.

There is no change in price over the short term, however, in six months a price jump of $2.50 per pound could be evident if the current business environment has any increasing changes. (George R. A. Milne, C.P.M., Delta Faucet Corporation, Indianapolis, IN.)

Brass and Bronze

Although the "soft" dollar has been a factor in the increased production for most domestic mills, ample capacity continues to exist.

Rod deliveries are being quoted at 2 to 3 weeks for most sizes. Leadtime for coil is approximately 4 to 5 weeks.

Since we do not project any drastic forward movement in the brass scrap market, it is anticipated that the price for brass and bronze will fluctuate within a very narrow band through 1986.

An adequate supply should prevail for some months. Leadtimes are expected to remain at the present level for the balance of the year. (Edward M. Straka, C.P.M., Baldwin Hardware Corporation, Reading, PA.)

Tin

During the last six months, tin traded down to the $2.50 range; this floor should now hold. There are still abundant stocks in the world, but to date, there has been reluctance on the part of the producers as well as the financial institutions holding stocks to sell at lower values. The up-side potential is limited by a current lack of demand for the metal. The anticipated trading range for the next six months should be $2.50 to $3.00 with no necessity to commit forward. (John E. Russell, ASEA-Kaiser, Springfield, NJ.)

Aluminum

April's report stated ingot was selling in the low sixties, that it would be in the mid to high sixties by June, and that there would be a domestic capacity of less than 68%. Prices did, in fact, peak in May and June but the domestic price is now back to 60¢ to 62¢ per pound, and capacity is still dropping — now less than 64%.

To confuse the issue, some believe demand and price will increase significantly in 1987 — price as much as 10%, with material being in short supply; others are convinced that consumption will be less in 1987 than 1986, thus making availability no problem.

One may wonder how metal may become tight when imports increased in excess of 40% for the first six months of 1986 and worldwide capacity continues to increase. Furthermore, consumption shows signs of slowing, and unless additional cutbacks are made, oversupply may result. In addition, the increase (4% to 5%) in the recycling industry and the decrease in oil prices, will help to make plastics even more competitive. Conversely, one also wonders what effect the following has: the recent announcement that 1987 cars will have an additional 5 to 10 pounds of aluminum; whether oil will remain at its present low price; and lower interest and subdued inflation rates (which may be temporary in the long run).

A prudent buyer must consider these opposing views, obtain as much information as possible from reliable vendors, and use their company's history and future plans to make the best decision possible. Planned buying may be the most astute; spot purchasing, although it may be economical in the short-term, may be a risk if metal becomes tight. (Ted Campbell, C.P.M., Morris Bean & Company, Yellow Springs, OH.)

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National Association of Purchasing Management

Report On Business®

November 3, 1986
Volume 4, Number 11

Purchasing Index Off Slightly

New Orders & Production Increases Slow

Price Increases Continue

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

October Report

(Please note that last month's Report was entitled incorrectly. The Report released on October 6, 1986, was the September Report.)

The economy continued to expand in October but at a slower pace than last month, say the nation's purchasing managers in their latest **Report on Business**. Production levels are still expanding but not at the rate of the previous two months. New orders increased again but at a greatly reduced rate. Inventories declined for the fourth consecutive month. Employment was also reported lower. For the second consecutive month, more purchasers continued to report higher rather than lower prices.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc. Mr. Bretz said, "As the economy entered the fourth quarter, the expansion noted in the previous two months slowed. However, production was higher and the modest increase in new orders suggest continued favorable production levels for November."

The **Purchasing Managers' Composite Index** declined to 51.9%, down from 53.2% in September. While dropping this month, October marks the third consecutive month this leading indicator has been over 50% and the seventh time in 1986. A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

In spite of the healthy production level, members continued to report lower employment levels. In October almost four times as many members reported lower employment (22%) compared to higher (6%).

Employment %	Higher	Same	Lower	Net Differ.
October	6	72	22	−16
September	13	60	27	−14
August	11	66	23	−12

Buying Policy

The healthy production level, reduced inventory level, and somewhat slower vendor deliveries appears to have lengthened lead times slightly. Lead times for production materials increased as 55% of members reported lead times of 30 days or less, down from 57% in September and the lowest since March 1985 (also 55%). Lead times of 30 days or less for maintenance, repair, and operating (MRO) supplies increased to 89%, the highest total since May 1986 (90%). This increase indicates a slightly shorter lead time in this category. After two consecutive months of increasing lead times for capital expenditures, lead times decreased somewhat in October. Lead times for capital expenditures in the six months or longer category declined to 57%, down from 60% in September and 58% in August.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
October	17	38	24	14	7
September	18	39	23	14	6
August	15	45	24	11	5
MRO Supplies %					
October	45	44	7	3	1
September	44	43	6	7	0
August	45	42	6	7	0
Capital Expenditures %					
October	14	3	8	18	57
September	16	3	7	14	60
August	10	4	10	18	58

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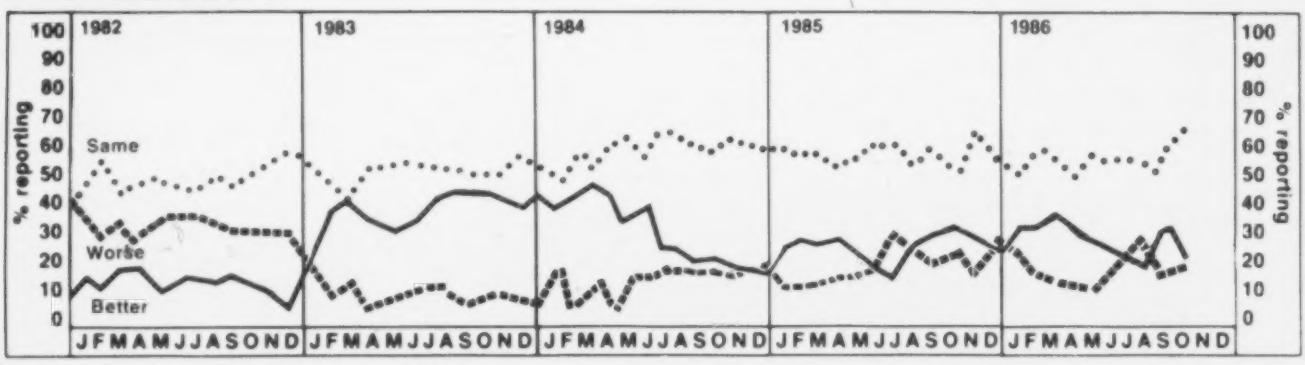
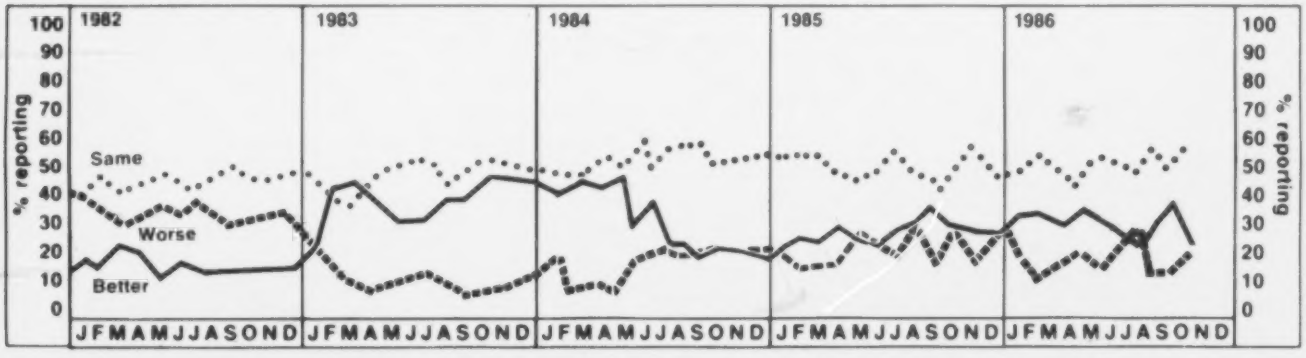
Production



Production levels improved in October but not at the same pace as September. The number of members reporting better production slipped to 20% from 27%.

Production %	Better	Same	Worse	Net
October	20	65	15	+ 5
September	27	60	13	+14
August	27	54	19	+ 8

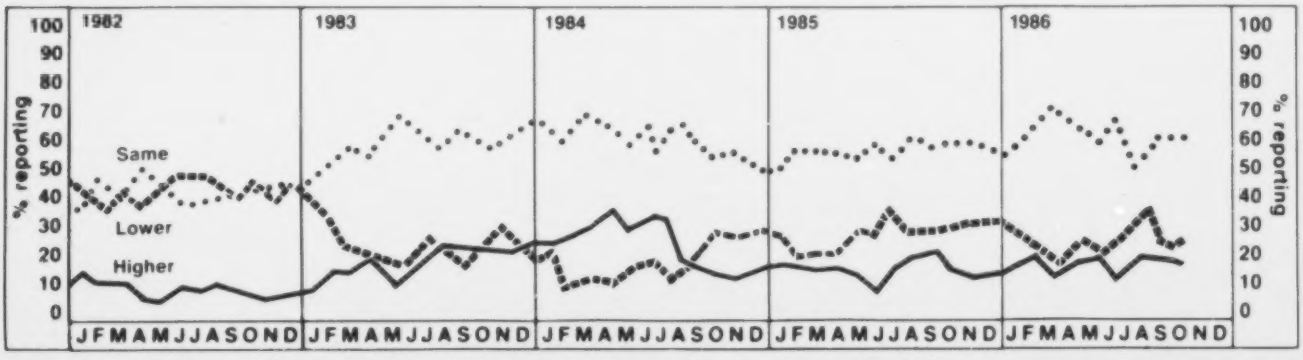
New Orders



New orders expanded for the third consecutive month but at a considerably slower rate than the previous two months. The net difference between those reporting better new orders (22%) and those reporting worse (20%) was only a net +2, compared to the exceptionally large net +20 in September. Nevertheless, the increase does signal that production levels for November should be healthy.

New Orders %	Better	Same	Worse	Net
October	22	58	20	+ 2
September	35	50	15	+20
August	28	57	15	+13

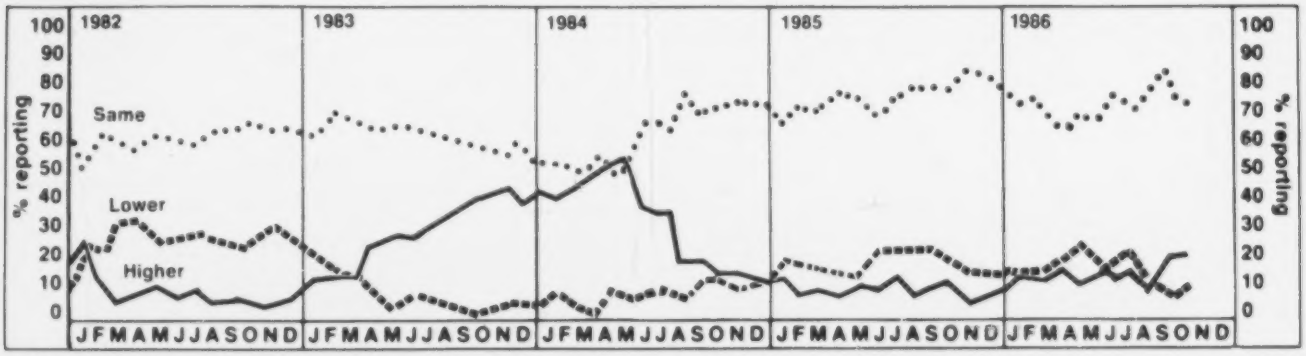
Inventories



Once again inventories declined. October is the 26th consecutive month that more members have reported inventories as lower rather than higher. Typically, manufacturers attempt to trim their inventories for the end of the year.

Inventories %	Higher	Same	Lower	Net
October	17	58	25	– 8
September	18	58	24	– 6
August	17	50	33	–16

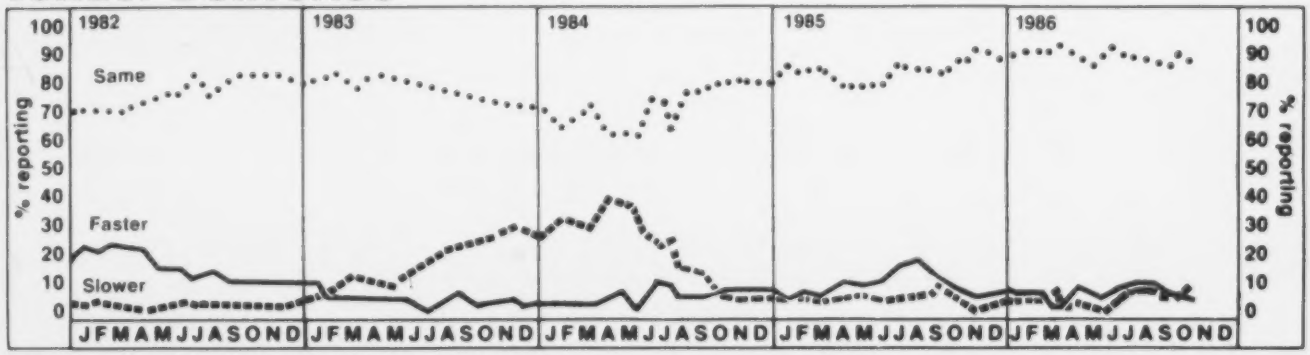
Prices



Prices are rising. For the second consecutive month members reporting higher prices exceeded those reporting lower prices by a ratio of nearly three to one. The 20% reporting higher prices is the most to do so since July 1984 (31%).

Prices %	Higher	Same	Lower	Net
October	20	73	7	+13
September	19	75	6	+13
August	9	81	10	− 1

Vendor Deliveries



The speed of vendor deliveries slowed in October, indicating manufacturers were beginning to find it slightly more difficult to meet purchasers' requested shipping dates. The 8% reporting slower deliveries was the highest since September 1985 (9%).

Vendor Deliveries %	Faster	Same	Slower	Net
October	6	86	8	− 2
September	5	90	5	0
August	7	87	6	+ 1

Specific Commodity Changes

Titanium dioxide was reported in short supply for the seventh time in the past eight months. However, it continues to be the only item reported in short supply in the last 21 months. Corrugated shipping containers were reported higher in price for the seventh consecutive month. Kraft paper and miscellaneous paper products (used in packaging and wood pulp) were also reported higher in price. Caustic soda prices were reported higher for the second consecutive month. Fuel oil, which was reported higher in price in September, was lower in October. Gasoline and coal prices were also reported lower as were industrial alcohols.

UP in Price: Corrugated shipping containers, kraft paper, paper products, wood pulp (used in paper making), caustic soda (used heavily in paper making and petroleum refining), polyethylene resin (used heavily in making plastic products), steel (particularly sheets and plates), and a variety of precious metals

DOWN in Price: Fuel oil, gasoline, coal, and industrial alcohols

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Dec. 1, 1986.

Commodity Reports

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dirkse, C.P.M., Johnson Wax, Racine, WI.

Metal Cans

The supply for metal cans is adequate and prices are stable. The big news is the purchase of American Can by Triangle Industries, which previously purchased National Can. At the time of this writing, USX is still on strike and there is increasing concern about the availability of steel.

Fibre Cans

The supply for fibre cans is adequate to surplus, and prices are stable to weak. Some price decreases are noted, however there is some concern that prices will go up due to increasing linerboard prices. There is surplus capacity due to users switching to plastic.

Glass

The availability of glass is still fairly tight and industry prices are stable. Plastic has been strong for one ounce liquor bottles, whether it can make a significant impact in the glass market of full size liquor bottles remains to be seen.

Molded Plastics

The supply for molded plastics appears to be adequate. Reports on pricing are mixed — some members report increases while others report decreases. Therefore, resin manufacturers are running at high operating rates, which is putting some pressure on prices. The reaction is mixed as to whether manufacturers will be able to make price increases stick.

Films

The supply and demand for films are pretty much in balance. Attempts are being made to increase film prices due to the strengthening resin market. However, time will tell if any price increases will become a reality.

Laminated Stock

The supply of laminated stock is adequate and prices are stable. Lead times on aluminum foil are lengthening.

Metal Drums

The supply of metal drums has been a buyer's market for a long time and little has changed. There is surplus capacity and consequently sellers are unable to increase prices.

Fibre Drums

Fibre drums is another stable market. There is plenty of capacity with no movement in prices.

Folding Cartons

The folding cartons market has changed dramatically. For months we have reported surplus capacity and weak prices. Now, however, board prices have increased and folding carton buyers are experiencing higher prices. Supply is also getting tight and lead times are lengthening.

Corrugated

The corrugated linerboard mills are running near capacity due to strong domestic and foreign demand, consequently, spot shortages are cropping up. The increase to $320/ton seems to have taken hold. The mills are now trying to increase the price to $350/ton. Of course, converters are attempting to pass these increases on to users, with a fair amount of success. Forecasting prices and availability for 1987 is difficult, because corrugated is so sensitive to supply and demand.

Bags

Generally the bag supply is adequate, but prices are firming due to stronger paper prices. The competition between paper and plastic for the grocery bag market continues.

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

Newsprint

Newsprint is currently readily available and anticipated to remain available for the near term. The next major capacity addition is scheduled in Quebec in the fall of 1987 and will add 200,000 metric tons per year. Inventory is building but most likely this is a temporary situation caused by the announced price increase for October 1st. Some sources feel that the approximate 6.5% price increase may slide somewhat and not become fully effective until early 1987. No additional increases are expected in the near term.

Uncoated Groundwood

Uncoated groundwood is fairly available. It is expected that it will remain available in the near term with added competition from Canadian suppliers. The projection is that uncoated groundwood demand should increase by about 3% in 1986 and all of this increase will be met by imported paper. This increased demand should continue in 1987 and 1988, especially in the supercalendered papers and groundwood forms bonds. Additional capacity is slated for late 1987, and deliveries are running 6 to 8 weeks. Inventories are stable with some decreases reported. Prices for some supercalendered papers could decline due to the pressure from coated groundwood. On the other hand, some upward pressure could be applied to the lower grades following a successful newsprint increase. This is the high season for demand of this grade in anticipation of the holiday season advertising.

Coated Groundwood

(We will now start reporting on coated groundwood separately. Previously it had been included with coated papers.) This is a grade which consists of at least 10% mechanical pulp in the basestock. The majority of this grade is a "number five" class. This particular commodity has fallen off in domestic production primarily due to an abundance of imports. Capacity in 1985 rose 3.7%. However, shipments have declined and thus, the operating rate for this grade is in the 87% to 89% range. There have been price reductions and further reductions could be coming due to additional capacity starting up shortly. The more attractive pricing might increase demand through 1987 and 1988. Inventories are at minimal levels so any growth of the economy would quickly aid the producing mills.

Uncoated Free Sheet

Uncoated free sheet still remains the "Shining Star" of the paper industry. Production through July is running 8.3% ahead of 1985. Some grades remain on a reservation or loosely enforced allocation program. Additional capacity of 440,000 tons will be starting up late this year or early 1987 with the full effect felt next year. Imports are running at an annualized rate of approximately 450,000 tons. Recent price increases announced for August 1st will likely be fully implemented by October 1st. The longer term outlook for this grade is still somewhat alarming since there is only one expansion each in 1988 and 1989 and both of these are in Canada. Deliveries remain fairly steady at approximately four weeks. Form bond grades still lead the pack in this commodity with tonnage shipped up 14.5% over last year. On the other hand, carbon tissue has declined some 9% but has just announced its third price increase for this year.

Coated Free Sheet

This particular grade is primarily used by commercial printers and their strength has held up a little better than the magazine printers. There is still excess capacity in this grade and prices are declining. Prices will likely stabilize shortly and should remain stable until demand catches up with capacity. Deliveries are running at about four weeks. In addition, products are readily available and are anticipated to remain available. Inventories are stable.

Bleached Bristol

This product is experiencing stable deliveries but some temporary near-term delays are expected due to certain machine shutdowns. Deliveries are running from 3 to 6 weeks. Inventories are currently decreasing. Prices have increased approximately 6.6% since the start of 1986.

Paperboard/Linerboard

All grades of paperboard/linerboard are experiencing strong demand. Unbleached kraft paperboard, solid bleached paperboard, and recycled board are all up in tonnage 6% to 10% from 1985. The linerboard production has also remained strong even though inventories at box plants have been reduced dramatically. Linerboard is a strong export commodity, and exports have increased 14% from last year. Delivery of some grades are tight and lead times are extending. Prices have increased and more increases are expected early in 1987. With a 7.2% gain in production from 1985 to 1986, along with the unknown future escalation of exports, this commodity warrants close watching.

Pulp

World-wide inventories and shipments increased for pulp in August. There appears to be adequate capacity to meet foreseeable demand. Prices have been increasing almost on a quarterly basis and most likely there will be another increase attempted early in 1987. However, prices are just now approaching the 1984 levels. Production has increased primarily on the bleached, semi-bleached, and unbleached sulfate grades by about 5.5% compared to 1985. The industry operating rate is currently at 95%.

Errata A6910-1

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CORRECTION FOR "INVENTORIES" TABLE OF OCTOBER REPORT ON BUSINESS

The National Association of Purchasing Management would like to announce a correction for the "Inventories" table of the October Report On Business (page 2).

Correction:

	Net
October	-8
September	-3
August	-6

Please note this correction on your copy of the Report On Business. We apologize for any inconvenience.